

Scandal at Maple Leaf Gardens • China After Deng • Hibernia Rises

CANADA'S WEEKLY NEWSMAGAZINE

Maclean's

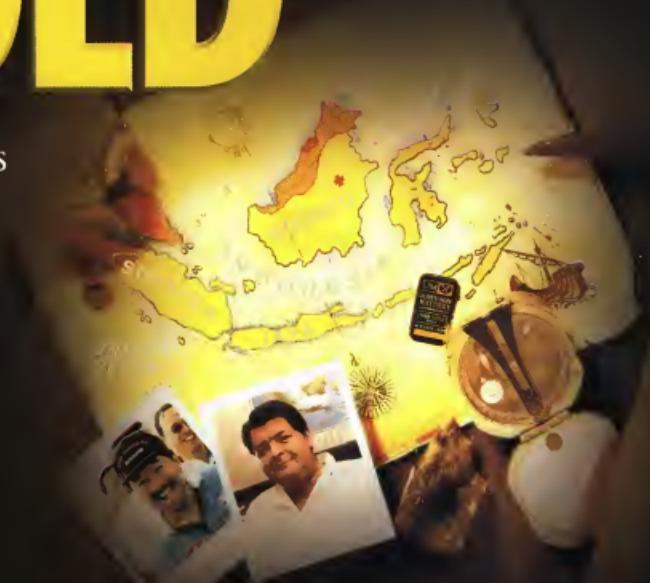
MARCH 3, 1997

GREED, GRAFT, GOLD

***THE INSIDE
STORY:***

How the Suharto
regime strong-
armed Bre-X

By Jennifer Wells
in Indonesia



\$3.50



From The Editor

Home care as an orphan



Canada's total annual spending on health care is a staggering \$72 billion, which amounts to about 9 per cent of the gross domestic product. In that respect, Canada is second only to the United States and Japan, which considerably pretends better life expectancy rates, spends only seven per cent of GDP. Little wonder then that Finance Minister Paul Martin continues to be a slasher at health-care spending. He argues that Ottawa's annual transfers to the provinces of \$625 billion in cash and tax points—and a guaranteed floor of \$11 billion—is money—*et al.* plenty. What he should no longer be doing, as he did last week in his budget, is proclaiming that the federal Liberals are the great defenders of医療。They are not.

The reality is that Ottawa's so-called Canada Health and Social Transfer has gouged about \$7 billion out of the provinces' budgets, and, worse, until the strings-as-those provinces now can back and chop health-care programs and perhaps as they want. The federal government has ceded to be the lead player. There is no longer a national health care plan—where everybody you care based on need, instead of ability to pay. What we have is a crazy patchwork.

Home care is no case in point. In 1994, Canada spent \$2 billion on hospitals and only \$1 billion on home care. It stands to reason that



The PM and Martin before the budget: no longer a national health plan

if governments are backing back spending and kicking people out of hospital, a massive amount of home care expense is going to fall on someone's plate. To date, the burden has fallen largely on families. One week you can get home care covered three days out of seven; the next week an administrator calls to say the coverage has ended. The people giving the care are over-worked and, as the complexity of the elderly patient's condition grows, increasingly unable to provide care. Then the search begins for a nursing home.

In its superb final report, the National Forum on Health stated the issue succinctly: "Home care should be can entered an integral part of publicly funded health services." As the Forum observed, "To make little sense to guarantee coverage where services are provided in hospitals yet provide partial or

no coverage at all for similar services out of hospital."

And what is Ottawa's response? It allows to put up a relatively modest amount of money for senior pilot projects on issues like home care. Is the rationale, people who have to depend on the existing system are on their own—*house, shootin' lame*.

Robert Lewis



Hibernia triumphant

Brian Bergman, the new *Maclean's* bureau chief in Atlantic Canada, also covered a very big story last week—preparations for the coming out of the massive, \$5.8-billion Hibernia offshore oil platform—one of the biggest production rigs in the world. Rather pertinently, the two major components will be joined in the water this week, after six years of construction. Halifax-based Bergman travelled to the rugged Bell Arm construction site, 120 km northwest of St. John's. His eight-page special report, exploring the project and the impact on Newfoundland, begins on page 24.

Newsroom Notes:

The saga of Busag

When National Business Correspondent Jennifer Wells arrived on assignment in Jarvis on Feb. 12, she found herself stuck in the middle of the vogue involving three Canadian mining companies and the Indonesian government in a fight over one of the richest gold deposits in the world. When the decision finally came last week, Wells finished her interviews, and then stayed up 48 hours to file her cover story on the Busag saga. The inside account starts on page 30.

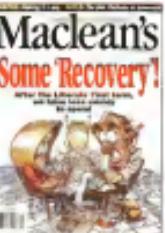


Please excuse the exclamation. It's just that we're pretty excited about the coming year. And if you keep your eyes on the road, you'll know exactly why.

The Mail

'Not alone'

The only encouraging part in reading your article "Some 'Recovery'" (Cover, Feb 27) is the remembrance that we are not alone in searching for new holes to pierce in our already constricted belts. The stress of being a one-income family can make easier to lose knowing that countless other Canadians are facing equal or more daunting financial challenges. Compensation for neighbors has healthy replacement for the insidious jealousy of "keeping up with the Joneses" when real-name names are good.



Laura B. Neale
President, B.C. 8

Now that we've "recovered" from the financial bad times, let the good times roll, right? Paul Martin and the Liberals held enough to introduce legislation similar to Manitoba's, that makes it illegal for the federal government to borrow money? What's a centavo, pay ya some? Let's get rid of the \$600 billion we owe without even adding to it again! What a legacy to leave our children and grandchildren! A country that uses its financial resources for today and tomorrow not to pay off what we did yesterday!

Alice Wertheimer
Naples, Fla. 80

'Visual identification'

The Third Reich, white supremacists groups and other similarly intolerant organizations would like to have individuals of Barbara Amiel's ancestry identify. After all, Amiel is able to spot a person of the Jewish faith, i.e., Maclean's Alblight, the U.S. secretary of state, by certain physical characteristics.

Not dead yet

Most of the Montrealers I know don't begrudge Toronto's success—they're far too busy enjoying the intense, sometimes fractious often exhilarating conversations that make Montreal a great place to live, study and work. Your review of City Daze, Montreal Days and Nights (in the Jan 26 and 27, 2002, William Morten's book about Montreal in the days when it was the capital of cool) ("Praise of the Anciens,"

Culture bias

Why is it that when discussing music, Web, TV, etc., produced in Canada they are always referred to as coming from the Canadian cultural sector, while the indistinguishable products of the United States are from "the powerful American entertainment industry"? ("Lowering the gdp," Canada, Feb 10) It sounds like an author has to say, and your self-interest is quite evident. True, magazines can relate to culture more distinctly than the international honor of pop-music, but they rarely even try to live up to that potential. The comments by Charles Baerleben, Washington's acting trade representative, that "we have no objection to the promotion by Canada, or other countries, of national identity through cultural development, but we do object to the use of culture as an excuse to take commercial advantage of the United States, or to evict American companies from the Canadian market," hit the nail squarely on the head. Canada's heritage minister, Sheila Cappo, meanwhile, is misleading us with her talk that "culture is not gone forever." The pork barrel is more to the point.

J. F. Loomis,
Edmonton

Opportunism?

It's interesting to watch Sheila Cappo tilting at the windmills of Canadian culture, again. ("Lowering the gdp," Canada, Feb 10). There must be an election in the wind. The World Trade Organization ruled against Canada on the issue of cultural measures because Canadian persons in throwing stones at the competition rather than fostering domestic culture. The Liberal attitude is to throw money at everything, hoping that some of it sticks. As such says Bryan Adams once put it: if you are poor, the world is your oyster; if not, there's always the Casino Council.

Gregory Shady
Sudan, Ont.

Righting a wrong

Your article "Life sentence in Florida" (World News, Dec 9) recently came to my attention. It concerns the story of two adulterers and a murder victim. David Turman is the murder victim. The two adulterers are David's wife, Marigay, and her lover, Ralph Crockett. Crockett did not murder his wife, however, as your story states. Crockett murdered his lover Marigay's husband, David. As David's sister, I can tell you that David has been demanding justice for his brother since he pointed to his mother and his sisters

Peter M. Gosselin
Lynnwood, Wash.

"It seems like everybody's talking about price, when what really matters is value."

Karen Daugland, Ray Hause, UTR Urban Forest Recycles Inc.



The business

The challenge

The solution

The results

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Backstage



Anthony Wilson-Smith

Prime Minister Paul Martin?

What kind of prime minister would Finance Minister Paul Martin be, and how soon could he be one? With all the respect—or lack of same—to Prime Minister Jean Chrétien, many Liberals are asking those questions lately. Martin's initial budget last week provides reasons for such speculation. Responsibility in cutting spending without any discernible political will to form the cornerstone of the next Liberal election campaign. Virtually alone among federal Liberals, the French bilingual Martin has a high profile—and a popular one—in and outside Quebec. Chrétien has emerged tarnished from his ongoing reluctance to apologize for his promise to abolish the Goods and Services Tax—but not Martin, who apologized on behalf of the party immediately.

That leads to a scenario that worries like that. Chrétien, after leading the party to another minority government, will step down in the year 2000. By then, he will have led Canada into a new century, like his hero, Sir Wilfrid Laurier, and led the Liberals—by their present expectations—to two majority governments, and a return to balanced budgets. Chrétien will be 65 years old, and Martin, if he is to have a shot at the job, will need it not much later than that. In 2000, he will turn 42.

Based on the evidence, Martin would be prime minister would be merciful, measured, occasionally interesting, sometimes backtracking, and impossible to pigeonhole as either a traditional liberal or conservative. While not a big spender, Martin would for ever dream of new ways in which the government could touch the lives of all citizens. Martin would, in short, be Canada's Bill Clinton—without the personal scandals. Other than that, Martin, like Clinton, would shift effortlessly in his ideologies, experiment endlessly (and often effectively) with microengineering progress, and sound utterly sincere and convinced of the wisdom of his policies at any given time.

Consider the evidence. In the mid-1980s, when Martin was still in private business, he spoke a lot of time pondering the potential effects of a free trade agreement with the United States. Like many Liberals, he was a skeptic—but his reasons were different from most. The company he owned, Canada Steaming Lines, did most of its business in Asia. That meant, Martin argued, was where Canada's economic future lay. The problem with enhanced trade with the United States, Martin would say, was finger pointing the finger for emphasis, or concentrating "all our efforts on one country precisely when the action is shifting away."

Asia, just as Martin predicted, has become the world's economic hot spot. Canadian businesses, perhaps because of their precon-

pation with the United States, were mostly late in realizing that. Still, Canada's trade surplus with the United States has improved markedly since free trade, and Martin, like other Liberals, has long since become a fan of the agreement.

Because of Martin's thirst for new ideas, his policies present a sometimes bewildering series of nags, nags and about-faces. The only truly tenacious one is one, So, too, is Martin's unrelenting passion for deficit reduction when he allowed himself to be reluctantly drafted into the finance minister's office by Chrétien after the 1993 election. He had said at the time for that task that he "was now the only because a convert after many hearings by the finance department.

Martin also was prepared to reverse his stand on the link be-

tween job creation and productivity. In his 1993 budget, he reflected his certainty that increased productivity invariably creates more jobs. That is supposed to be one of the key benefits of technology and an integrated global economy. Later that year, Martin read a book called *The Road to Wealth* by American economist Jagdish Bhagwati in it, the author argued that increased productivity and technological advances actually kill jobs. Martin was deeply impressed—but chastened when in use within his department agreed.

Similarly, the tone of the budget that Martin unveiled last week reveals something of his divided soul. The bigger it accomplished, the louder fiscal conservatives, the government is on a faster track than ever towards a balanced budget, perhaps by the year 1998-1999. But Martin's speech and the buoyant nature of the small programs he announced reveal a man consumed of the importance of government in the everyday lives of Canadians. He concluded by discussing the need for Ottawa to invest again in areas including "trade, tourism, small business, rural Canada, youth employment and infrastructure." Never mind that a few years ago, the government boasted that it was getting out of the business of taxation. Never mind, too, that the money the government is investing is minuscule, by previous standards. The important thing is Martin's focus for government to provide direction, and persistence.

Even Martin recognizes that at times, the more conservative Chrétien has been wise in raising so little enthusiasm. With the finance minister popularity on the rise and the Prime Minister's lead temporarily waning, it is easy for observers to forget that they bring different but complementary qualities. In the wake of their somewhat harridan 1990 leadership clash, what unites the two men has since mattered more than what divides them. But after the election is over, with the clock ticking more loudly than ever for each side, the real speculation will begin over whether Ottawa is still big enough for both of them.

While not a big spender, he would forever dream of ways in which government could touch the lives of all citizens

Opening Notes

Edited by BARBARA WICKENS

You Scream, I Scream . . .



Pasche-Taylor: an image for every possible agenda

Just what was Edward Pasche-Taylor thinking when he painted *The Scream*? Critics howled when the Norwegian artist first exhibited the lurid canvas in Berlin in 1893. "It caused huge scandal," says Michael Parkes-Taylor, curator of a major Pasche-Taylor exhibit opening at the Art Gallery of Ontario in Toronto this week. But the bleak, agonizing figure depicted in Munch's scream—and so often to the naturalistic imagery of the 19th century—resonates with meaning in the wired world of the 1990s. In recent years, *The Scream* has joined *The Kiss* as one of art history's most reproduced icons. "The image has been used for every social and political agenda you can possibly think of, from feminism to the environment to politics," notes Parkes-Taylor. Just how deeply the image has penetrated popular culture is clear in the art gallery's companion exhibit, which features editorial and humorous cartoons, posters, advertising material and an array of mugs, T-shirts, mouse pads, inflatable dolls and even a beer bottle and nightlight emblazoned with *The Scream*. Says Parkes-Taylor: "It has become this image of modern man—totally stressed out and angstridden."

A new plot is hatched on campus

For many university graduates, staying in touch with their alma mater means showing up at class reunions or writing in a newsletter or two. But dozens of two U.S. schools have taken a more steps to maintain links—by reserving spots in cinemas or vaults on campus. "We had a lot of alums contacting us and asking could it something be done, that they would like to be buried here," says Frank Bohemian, director of public relations at Mount Saint Mary's College and Seminary in Emmitsburg, Md. Since its cemetery

opened two years ago, about half of the 300 available grave sites have been sold. "For many people," says Bohemian, "this comes the closest to being the equivalent of the old family church cemetery." At the University of Virginia in Charlottesville, students can pay about \$1,500 to have their ashes stored in one of the 180 niches in a granite vault. Local lawyer Leigh McDowell, 62, spearheaded the project. "An alumnus who is very close to this university," he explains, "wanted to be a pioneer as possible."



Gilles Bisson, Bisson: Ray: "A lot of encouragement"

They stand on guard

They have bawled jeans, insults, even perches. They have faced sun, snow and bitter cold. But after a year of defiantly flying the Canadian flag every weekday from 5 to 9 a.m. on the steps of City Hall, these Quebec City-area residents are determined to continue a civic patriotic crusade. "We're doing it for the country that we knew and love," says Raymond Carter, 67, a retired army and coast guard aircraft mechanic. Like the low-level demagogues Jos Bileczo, 66, also a serving veteran, and Pierre Roy, 55, a retired computer technician, Carter remembers the anger he felt in June 1990, when newly elected Quebec City Mayor Jean-Paul L'Allier ousted the Canadian flag removed from the central flagpole at City Hall in reprisal for the failure of the Meilleur Lake accord.

The three who use a homemade collar they installed on the pole, started flying the Canadian flag in February, 1995, after a local radio talkshow host insulted citizens by saying nobody in Quebec had enough respect for Canada to try to force the mayor to put the flag back. Despite the occasional affronts with fire hoses, separatists (the most serious incident occurred last May, when Bileczo was punched in the face and knocked to the ground by a man who tried to tear down their flag), the men have not missed a day and say they are enjoying themselves. "We get some heat at a lot of encouagement from both city residents and tourists," says Roy. They figure their best chance of seeing the Canadian flag flying officially once again at City Hall is if L'Allier is defeated in the next municipal elections, slated for November. "We're hoping that the next mayor has more dignity and class," says Bileczo. "If not, we'll just keep coming back."

Touched by her torching

Since first seen in English in a small Montreal theatre in 1965, a Quebec musical about Joan of Arc has metamorphosed into a large-scale \$1-million stage production. But according to producer Alisa Standler, the most difficult aspect of adapting the renamed *Joan in Paris* was not having the 31 cast members alternate between English and French performances. Instead, the dramatic scenes where Joanne, played by Montreal soprano Judith Horrell, is burned at the stake proved technically problematic up until the day before the Feb. 7 opening. Now, the Italiano words so well that spectators seem to forget that it depicts real torture. "Audiences are applauding and they're talking as 'Boy, that's really good!'" says Standler. "The voice still gives me the willies. I don't want to applaud it, and I'm just wondering why they are applauding." Not everyone is in the musical, which also stars former child singer Rose Spragg as King Charles VII; he has been burned by mixed reviews. But whether that is enough to torch Seiler's hopes of taking the show to Broadway this fall is still at stake.



Horrell and Standler being burned at the stake

Passages

DHÉRIS Soprano Ileana Merrill, 73, one of Canada's leading singers in the 1950s and 1960s, died of complications following exploratory cancer surgery in Toronto. Although a childhood bout of polio limited her career on the opera stage, Merrill was considered by many to be one of the greatest vocal voices Canada has produced. When she first started singing she quickly became a favorite of such prominent conductors as Sir Ernest MacMillan, Sir Thomas Beecham and Arturo Toscanini. Later, her performances of German lieder and British folk songs became legendary. Merrill, who was named an honorary fellow at the Royal Conservatory of Music in 1994, received many honors, including the Canadian Music Council's Award of Excellence in 1974.

Photo: AP

AWARDED: The \$50,000 Killam prize for lifetime achievement by Canadians in sciences and engineering, to Stephen Cook of the University of Toronto, for his work in theories of parallel computing; to David Blackstock, also of the University of Toronto, for his findings in the biochemistry of muscles; and to Stephen舞鹤 of the University of Montreal, for his research in organic chemistry.

AWARDED: The Montblanc de la Culture, one of 10 awards the Geneva-based pen manufacturers gives each year to international figures of the arts. To Toyota president **Jiro Taniguchi**, 64, who donated his \$20,000 prize to the Art Gallery of Ontario.

RECOVERING: Movie star Elizabeth Taylor, 64, after undergoing surgery in a Los Angeles hospital to remove a benign, two-centimetre tumor from her brain just behind and above the left ear.

RETIRING: Gisele Bundchen, 36, after suffering her 12th concussion in 14 seasons with six teams in the CFL to become the defensive co-captain at Georgia's Valdosta State. Bundchen, one of the CFL's most prolific passers, was the only player in league history to lead four different teams to the Grey Cup.

CANCELLED: CBC TV's weekly musical variety show *Rita & Friends*, hosted by Cecile Destin singer **Rob Machado**, 51,

DIPLOMATIC POUCH

The fat hits the fire in Ottawa

Heckling and name-calling have a long, if hot-headed history in the House of Commons. But last week, when Defence Minister Diane Young taunted Bloc Québécois MP Deborah Grey by retorting "I would say that there is more than a dot of bacon talkling here," she went far too far even for Ottawa. Grey quickly got a dressing-down when it came to go-ahead-and-loose in the House, was dismissed. She is not the first female parliamentarian to be belittled for her size. In the 1980s, Liberal cabinet minister Judy LaMarsh was often referred to her as "Mrs. Morris." Grey suffered a similar fate when she got on 603 radio after she months of being named revenue minister in 1976. That prompted endless questions about when her baby was due. During her ill-fated 1980 federal election campaign, then-Progressive Conservative leader Brian Mulroney tried—unsuccessfully—to deflect critics' comments by ranking, when he ran, about the weight she had gained. Toronto author Terry Glavin, 45, recently published a book, *No Fat Chicks*, about women's weight. Larger women, says Glavin, are not as accident-prone as those who are thinner. "It is the one thing that dogs right to the heart of most women's insecurities," says Glavin. "It undermines them from the outside."

BEST-SELLERS

FICTION

- 1 *All the Rivers*, Margaret Atwood (G)
- 2 *State of the Union*, Steven Gaskins (G)
- 3 *Ed in the Woods*, Jon Wiener (McSweeney's)
- 4 *The Beggar's Way*, Guy Gavriel Kay (G)
- 5 *White Heat*, Michael Crichton (G)
- 6 *Letters of the Heart*, Carolyn Haines (G)
- 7 *Alcatraz*, Michael Crichton (G)
- 8 *The Sheep in the Raincoat*, Jennifer Whiston (G)
- 9 *The Silver Peacock*, John le Carré (G)
- 10 *The West Wing*, Tom Clancy (G)

NONFICTION

- 1 *Women, Men & Money*, David Fafard (G)
- 2 *Women, Women, Women*, Sandra Boynton (G)
- 3 *Personal History*, Barbara Brown (G)
- 4 *The Island of the Golden Girls*, Diane Johnson (G)
- 5 *My Big, Beautiful Wedding*, Debbie (G)
- 6 *Buy Buy Baby*, Michael Moore (G)
- 7 *Buy Buy Baby*, William Shatner (G)
- 8 *Angela's Ashes*, Frank McCourt (G)
- 9 *The Brightest Star*, Anthony Bourdain (G)
- 10 *A History of Reading*, Alberto Manguel (G)

1. *Patricia Highsmith* (G) 2. *Edith Wharton* (G)

One woman's winter

Toronto documentary filmmaker Ken Ehrlich's first novel, *Elephant Walk-Me*, focuses on Sophie Walker, a young woman who becomes one of the CFL's most prolific passers. The story follows her through the ups and downs of her life, including her marriage to a man who abandons her, her move to a new city, and her return to her hometown to care for her dying mother—and who forges a close bond with a herd of elephants, and their keeper, at a neighboring tourist attraction.

Martin's
word is behind
us; the era of
cuts is ending

Canada

Martin's message

The federal budget emphasizes deficit-cutting success

BY JOHN DEMONT and E. KAYE FULTON

A t Marco Tassan's ménage à trois the day after the signed photographs of past and present Liberal stars on the walls of the former downtown Ottawa restaurant serve as constant reminders of the political coup and campaigns hatched inside the Valley's interior. No one, it seems, baited an eye when a noisy collection of government MPs gathered there for cocktails, pasta and idly doing of political gossip a few days before Finance Minister Paul Martin tabled his budget last week. Yet even the politicos perked up when a handful of uninvited guests strode into the room and sat down in a corner. If the Liberals are to return to power, it will be through a campaign remastered by the hard-edged, well-heeled heart of David and Peter O'Callaghan, campaign guru John Rae and the party's national election cochair David Smith and Colleen Heyes-Payette. Their mere presence, together with public ratiocine (they gingerly clink)—not to mention budget week in Ottawa—had election fever on its way.

The budget itself may not have been the traditional firebreathing panzer face. But by locking off an expensive spending program and by dispensing of his budget news a week earlier, when he was named a 73-per-cent hike in Canada Post's Plan contribution by 2003, Martin set his party's cause in motion the next campaign as conservative, deflatingly so. At the same time, the government's modest spending programs were clearly aimed at

the party's traditional supporters—women, minorities and the well-to-do middle class—whose support, according to Liberal polling, has become dangerously soft. And Martin promised that Canadians will "fully begin to get some payoff for four years of painful dental." "We can see the result in behind us," he told the House of Commons. "The era of cuts is ending."

For now, though, Martin is gingerly gambling that the Liberal can pull off a previous balancing act—solving a tightrope between restraint and generosity. But will he succeed? The initial response was predictable but muted: the business community lauded Martin's progress on the deficit, the Reform party said he should have cut taxes, social activists and labor leaders maintained he should have spent more to create jobs and shore up social programs.

By long, though, the post-budget hazing in court chambers turned to the internal government battle between the spenders, the doers of the stimulus that accorded the world's package, and the savers, the scientists who saw a fiscal credit for the five-year-plus deficit. Every cut was devoured by solidified reports or claims by Health Minister David Burwell that he and other cadre of the re-organized caucus members had convinced Martin and Prime Minister Jean Chrétien to loosen the purse strings for health care and education. "The gift of the man," characterized one of Martin's closest advisers. By week's end, a campaign was under way to paint Martin and Chrétien—and not just several Liberals like Burwell, Environment Minister Sergio Marchi, Science Minister Herb Gray and former cabinet

central—or \$400 million. And the Goods and Services Tax sits atop 3.6 per cent—or \$400 million.

At the request of Maclean's, David Perry, senior research associate at the Canadian Tax Foundation, calculated the tax burden imposed by Ottawa's personal income tax, Employment Insurance premiums and Canada Pension Plan premiums. It has gone to 22.2 per cent of GDP in 1997 from 9.9 per cent in 1993. That may not sound like much, but it amounts to a bullet of \$3 billion—or \$600 for a single taxpayer earning \$20,000. That part in the pocketbooks is real.

Canada Pension Plan
Martin gleefully told Canadians that there were "no new taxes" in his 1997 budget. Technically, that is true, but like the listed pastel, his new is growing. Because Canada

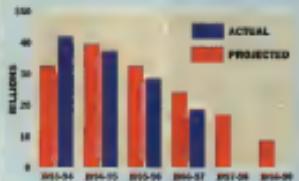
The fiscal facts

BY MARY JANIGAN

The federal Liberals are delighted when few Canadians pay attention to their annual budget. That way, they can trumpet the good news when it suits them—on the hustings. And they can bury the bad news indefinitely. Maclean's presents a short guide to the fiscal facts underlying the 1997-1998 budget.

THE DEFICIT

John McCallum, chief economist of the Royal Bank of Canada, says that the Liberal government has created "the strongest government of a revenue credibility problem." Deficits have consistently been lower than they are forecast. Finance Minister Paul Martin countered that he has based his budgets on "prudent economic planning." That will continue as he has set aside a contingency reserve of \$3 billion in 1997-1998—but just in case something goes wrong. And he says he would rather boil his targets conservative than give overly optimistic projections—and risk the government's hard-won reputation with the financial markets for keeping its word. Be it as it may, his world, barring a catastrophe, the books will actually balance at the century's end.



Taxes

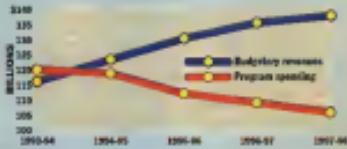
Reform party Leader Preston Manning says that the Maran plan is a "fudge if budget"—one that relies heavily on increasing tax revenues, instead of direct spending cuts, to reach its deficit targets. He repeats his call for income tax cuts. Martin says he will not deliver big breaks until the books are balanced. Meanwhile, even though the 1997 budget contains no tax increases, revenues are going up, largely because the economy is growing. As well, there has been no adjustment for inflation in the tax brackets, so many taxpayers move into higher tax brackets even if their salary only keeps pace with inflation. The take from personal income tax will be up by 16 per cent—or \$2.2 billion—from the \$3.3 billion collected last year. Corporate taxes are up 2.5 per

THE DEBT

The amount that Ottawa owes has kept growing—because the government keeps adding its annual deficit to the total. Alberta Premier Ralph Klein warns that Ontario should be cutting its deficits faster. "I think there is still some room," he says—so that the federal debt and the interest payments on it would be lower. Martin counters that his pace has been "disciplined, measured and responsible." The debt itself has gone from \$200 billion in 1993-1994 to \$210 billion in 1997-1998. The crucial measure, however, is its rate of inflation to the gross domestic product: when more than two decades of constant growth, that is starting to decline.

PROGRAM SPENDING

Judy Darcy, president of the Canadian Union of Public Employees, says that Ottawa has abandoned the unemployed and the poor in its quest to cut costs. "What we have here are tiny hand-outs that are being put in gaping wounds," she says. The Socreds, Merlin, confirms that he could not rely on his colleagues to believe his books are real spending. Now, as a focusing available cash on specific programs for those groups, such as educators and seniors. Still, it is clear that Ottawa has become less of a presence in the lives of Canadians.



Program Plan planwise—\$14 billion in 1997—are not included in federal finances, they are also not included in the federal budget. But in a sketchy sleight of hand on the rest of the federal budget, Martin announced hefty program increases. Ted Gerichiew, head of research at J.P. Morgan Canada, calculates that the changes could impose an estimated payroll tax increase of \$1 billion in 1998—even taking into account a slight drop in Employment Insurance premiums. The CPP increase could add a staggering \$2 billion per year over the following seven years. "This will deepen disposable income and reduce consumer spending," he notes. Taxpayers should hold onto their hats: the maximum employee contribution has gone to \$1669 in 1997 from \$932 in 1996, and will rise to \$1,666 in 2000.

CANADA

Finance minister David Collister—as the architects of the \$800-million plan to finance research in universities and hospitals, the \$400-million program to fight child poverty, the \$225-million in financial support for university students and their parents.

Despite the claim to spend more, Martin could only be nudged off his single-minded goal to meet, or exceed, his deficit-reduction targets. In pre-budget hearings last December and January, he argued with Chretien that no matter how many Canadians were of constituting, they would not forgive the Liberal party if it strayed off the promised track of a balanced budget by the end of the century. "People are deficit-wary," Martin told Chretien, according to a senior Finance official. "But God help the government that brings this issue back to the table." The recently independent economy had slowed Ottawa to whittle a further \$5.5 billion off Martin's 1996-1997 deficit target of \$24.7 billion. But even with the unemployment rate stuck at what the budget calls "unacceptably high" levels of 8.7 per cent and facing demands for job-creation measures, Martin refused to revise his deficit targets. They remain at \$17 billion for 1997-1998 and \$8 billion for 1998-1999. "If Paul ever raised a deficit target, he'd have to resign," said a senior Martin aide. He has stated his credulity in those targets.

Instead, Chretien and Martin plotted a fine line between fiscal prudence and new spending that totalled almost \$1 billion in social initiatives and modest job-creation schemes. In the end, Martin's government was short but strategically astute in the re-active mode it chose and the way it did it.

Child Poverty Senior Liberals now admit they blundered badly with a 1993 Red Book pledge to spend \$750 million on a national day care scheme. Even with the federal escape hatch—the program would need the agreement of all the provinces, which Ottawa has failed to secure—the issue still remains a broken promise. As a sort of belated consolation from that, Martin has just announced a \$100-million national child benefit system that on July 1, 1998, will direct money to 2.5 million poor children in 1.2 million families. Added to the \$250 million promised in the last budget, Ottawa will give contribute \$6 billion a year to alleviate child poverty. Among the measure of the new plan, benefits for a low-income family with two children will increase to \$834 a month from \$822.

Health: The Liberals may be squabbling over who deserves the credit, but critics say the inflation-\$500 million cut to health-related programs over the next three years is not a lot to crow about. The National Farm on Health, set up by Chretien in 1994, recently revealed in early February that Ottawa expand Medicare to cover home care and prescription drugs, a new goal for private insurance and some non-medical programs. Toe-expansion? Gosh! Between the latest steps, we may be face election before it has nothing. In-

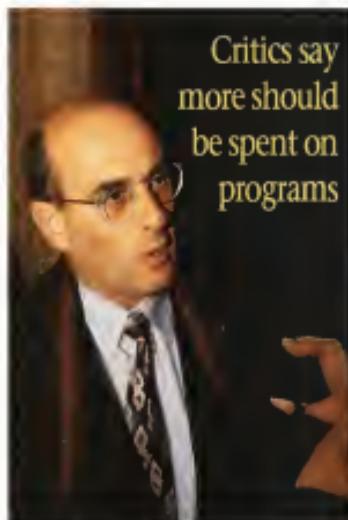
stead, Ottawa has created a \$150-million Health Transition Fund to set up programs in the next three years to "experiment" with home care and drug programs. A further \$50 million was set aside for a national health information system. It could have been twice. Martin was prepared to cut deeper into two constituency action programs that fund local services, including family-resource centres and prenatal nutrition programs. But Chretien buried in the previous back brouhaha and instead ordered an additional \$100 million beyond current funding for the two programs.

• Education: With \$175 million earmarked for students and their parents, Martin aimed squarely at middle-class voters struggling with increasing postsecondary education tuition fees. Among the more popular budget measures ("We're getting lots of mail on this one," said a Martin aide late last week) is a plan to allow parents to deduct their maximum registered education savings plan annual contribution to \$4,000. The changes would also allow smaller RRSP money to be rolled into registered retirement savings plans. Repayment of student debt loans, due in 10 years within 18 months, has been stretched to three years, with Ottawa picking up the tab at a cost of \$60 million a year. Students also get a break with living costs: the budget increases the education tax credit from \$200 to a max of \$150 in 1997 and \$200 in 1998.

• Infrastructure: The budget created an \$800-million Canada Foundation for Innovation to improve research facilities at universities, colleges and hospitals that have been hard hit by budget cutbacks. Martin and Chretien worked on this budget together under such secrecy that not even cabinet was told of the details. In fact, Industry Minister John MacKay, a longtime proponent of increased funds for health-research, knew nothing of a backslapping ploy to pay for the program out of 2000 revenues rather than stretch the genetics over the life of the five-year project. "The only way to make this work as a long-term economic program," said a MacKay aide, "was to take the money out and put it into an arm's-length agency," protecting it from any future fiscal pressures. That measure also safeguards the project as a political election plan.

With the Liberal 47 per cent in popular opinion polls, compared with 34 per cent for the second place Conservatives, such precise tally may seem unnecessary. But there are troubling questions on the horizon. After less than four years in power, the party's initial polling audiences, the Liberals have managed to attract affluent, fairly conservative voters who support the government's anti-deficit tack. Now, with the deficit nearly halved, strategists are asking how the party can continue to hold them. Meanwhile, the polls also suggest that traditional Liberal supporters are starting to tire of the deflatingly negative message. "The party needs to show its compassion," stresses Liberal politico Michael MacAulay, president of Toronto-based POLARIS. The question is whether the parsimonious handouts in last week's budget are enough to prove the Liberals' care. □

Critics say more should be spent on programs



Dingwall on interval tactic between the spenders and the slavers

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The secret Gardens

**Charges of abuse taint
Toronto's hockey shrine**

Fresh off a tour of Maple Leaf Gardens, a group of excited Grade 5 and 6 students from suburban Toronto swarmed the hockey arena's souvenir shop. They lined up hats and gaped at the prices of the team's blue-and-white jerseys. But last week the innocent cluster of young Leaflovers seemed more edgy than cheerful. Only minutes after teachers had shepherded the kids onto a waiting school bus, even faced Maple Leafs' president CH Fletcher met reporters in the Gardens lobby to address allegations that a ring of pedophiles operated in the arena in the mid-1970s and early 1980s. The sizzling revelations came after Toronto police charged 45-year-old Gordon Shandless, a former part-time Gardens employee, with indecent assault and gross indecency. The arrest prompted a flood of telephone calls, leading police to suggest there may be as many as two dozen other victims. "It's despicable," Fletcher said.

"It's the lowest form of human behavior."

Who is a hockey First, come the January accusations of former Swift Current Broncos coach Gordie Jones? For one, 42, assisting two of his teenage players in the 1980s. Then, just weeks ago, police described the Gardens—the 66-year-old icon of Canadian national pride—as home to a covert group of sexual predators whose access to the arena enabled them to lure young, starry-eyed fans. According to police, Shandless, longtime Toronto Marlies coach (and owner) George Kruse (who died in 1984) and John Paul Robey '54, a part-time usher who had worked at the Gardens for 25 years, sexually assaulted the boys between 1975 and 1982, sometimes in Gardens utility rooms and once in (then) Martin Kruse, the 94-year-old Toronto native who spearheaded the investigation, told police in January that at age 12 he had been coerced into having sex with Kruse and others after accepting free tickets to games and concerts. "Maple Leaf Gardens was a sex haven of abused boys, tons of them," Kruse told reporters. "They would lay down blankets and they would get us naked and have group sex."



Kruse (left); Fletcher (right). Who are the lowest form of human behavior?

The alleged scandals occurred when Maple Leaf Gardens (it was owned by Harold Bell) were based in an apartment in the building and run the company with only a doorman staff and almost no security. You could walk in all the Street right up to Mr. Bell's office if you looked like you knew what you were doing," Gardens spokesman Bill Stetlick recited last week. At the time, there were also more hats in the building. The Leafs owned the major junior Toronto Marlies and sponsored several minor hockey teams that practiced at the Gardens. Bell, who in 1972 was sentenced to three years in prison for fraud and theft, the served one year, often hired ex-converts and others who could not find jobs anywhere else. Eastlanders it's nice if

workers trading tickets for booze, and after eight drinking parties in the maintenance rooms. "The place was full of older, single men," said one employee. "I know it sounds strange now, but George thought someone once said I was shocked when I read about it."

Last week, current Leafs owner Steve Stavis offered no public comment on criminal questions why didn't the club report Kruse's allegations to the police in 1980? It was then that Kruse launched serial suit against the company that owns the Gardens, seeking compensation for the reported sexual assault he says he suffered between 1975 and 2002. And Kruse claims he offered to help the Leafs attend other offenders in the organization, but was rebuffed.

Fletcher—speaking for his boss—says Kruse named himself as the only perpetrator (although a separate investigation by the Gardens' insurance company, the suit was settled out of court for \$60,000. "After the settlement was made, there was a confidentiality agreement," Fletcher said. "Mr. Kruse chose the right he wanted to go. He retained legal counsel and, for whatever reason, chose not to go to the police."

Kruse says it was the example of Senator Kennedy, the Bostonian who went public with his story of those at the hands of Gia Juan James, that emboldened him to break the confidentiality agreement and talk to police and the media. Police and the dams of calls they received after charging Shandless did not all concern reports of abuse at the Gardens. Shandless, who was on probation for a previous sexual assault conviction when he was arrested last week, had coached minor hockey and once worked as a public-school teaching assistant. Fletcher, meanwhile, insisted that with improved security and a no-tolerance sexual harassment policy, the horrors alleged by Kruse "could not happen" at the Gardens today. What has Canadians rolling is the possibility that they happened at all.

JAMES BEACON



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BANFF REPRIEVE

The Supreme Court of Canada's decision not to hear the case of Sunshine Village Corp. means the resort operator must conduct a full environmental assessment if it wants to expand its ski facilities in Banff National Park. Environmentalists said the decision could force future developers to study all potential effects of their projects in other national parks.

SUCH GOOD FRIENDS

Quebec's Ludain Bouchard and Mike Harris of Ontario have become so friendly that the premiers and their wives are planning to get together at Toronto on March 7 and 8. Bouchard said he will mix business with pleasure when he and Audrey Beaudoin-Bouchard visit Harris and his wife, Janet. The friends gave an off-the-record mission to Aids in January.

OFF TO JAIL

Federal Tory cabinet minister John Gutfreund was sentenced to two years less a day for his role in Saskatchewan's biggest political scandal. Gutfreund defrauded taxpayers with false expense claims worth more than \$13,000 while he was part of former premier Grant Devine's government. Seven others have been convicted for their roles in the scheme, which netted almost \$1 million from provincial coffers.

GETTING CUT

Conservative candidate Max Naszer, who is Premier Ralph Klein's brother, withdrew from the Alberta election campaign. Naszer has been sued in a number of embarrassing civil cases, and court documents revealed last week showed that in 1991 police charged him with attempting death threats—a charge later stayed.

KNUCKLES RAPPED

The Canadian Judicial Council issued a public reprimand to Associate Chief Justice James Jerome of the Federal Court of Canada. The Council and Jerome waited three days during the 10 months he was involved in a departure case involving three alleged Nazi war criminals, adding that his conduct "fell short of the standard of diligence." Last year, Jerome was forced to remove himself from the case after a federal lawyer complained he was taking too long.



Couture is custody. Manitoba's Chief Fortinou refuses to quit

Trouble with gangs

Enough was enough. Last week, the *hustler* of Manitoba Chief constable Brian Couture, a gang leader of the Manitoba Warriors who is a brawly criticized movie, was hired in January to oversee an anti-gang youth program in downtown Winnipeg. Couture's dismissal was precipitated by a police drug raid two weeks ago in which he and almost two dozen gang members were arrested. Couture had been brought in to keep young nobles from joining street gangs. Critics say his resignation soon followed oral accusations that the centre under Couture could be used to recruit new gang members rather than dislodge them from joining. Couture's arrest and subsequent dismissal cast more doubt on the future leadership of Fortinou—one of Canada's most high-profile nation leaders.

JUSTICE

'A disabling bias'

In yet another setback for the busi-frowned Somers, the Federal Court of Canada ruled in favor of a complaint brought by Big-Ben. Eric Beno that commission chairman Gilles Lévesque was biased against him. Justice Douglas Campbell ruled that Lévesque—himself a former Court justice—had indeed shown "a disabling bias" and is prohibited from taking part in any discussions or decisions about Beno's role in the Somers affair. In 1992, Beno was involved in overseeing a program to send the Canadian Antarctic Research Team to Somers. Beno's lawyer, Bruce Cox-Harris, maintained that the legal attack against the inquiry, which has been ordered to end its hearings by March 31 and deliver a report by the end of June, are far from over. "These guys have admitted they can't do their report properly," Cox-Harris said. "The commissioners ought to shut the inquiry down."

The tobacco wars

Did he blip? Perhaps. What is certain is that Health Minister David Drengulin was under intense pressure to do away with strict limitations on tobacco advertising for arts and sports events. Last week, amid the hubbub of a new budget, Drengulin quietly introduced amendments to Bill C-71, which delay by one year the controversial limitations—and in the process effectively shelf them until after the next federal election. Despite the delay, critics continued to accuse Drengulin of gutting sports and cultural events, which received \$60 million from tobacco manufacturers last year. Bill C-71 will hit events like the Montreal Grand Prix race and Vancouver's IndyCar race. Among the measures, company names will be limited to the bottom 10 per cent of signs. Tobacco firms have threatened to challenge the legislation in the Supreme Court of Canada. Meanwhile, the Canadian Cancer Society stepped up its anti-tobacco lobbying by criticizing the appointment of Robert Parker, president of the Canadian Manufacturers' Council, to the board of the Women's College Hospital Foundation in Toronto. Last June, Janet Turnbull, president of the society's Ontario division, and having Parker on the board "sends the wrong message in terms of women's health care." Parker and the society were trying to "radiate" the debate on tobacco.

HIBERNIA RISING

Will offshore oil help to revive the Rock?

The distilling unit
represents a delicate
mid-water mining effort.

BY BRIAN BERGMAN

John Cabot could never have imagined anything like this. The Anglo-Jewish explorer arrived at the Grand Banks in 1497, the schools of codfish were so thick, they literally stopped his ships in the water. It was a wonder of the age. Hibernal faded to the Grand Banks, and England had claim to the "New Found Land" beyond them. Now, as Newfoundlanders mark the 500th anniversary of Cabot's voyage, the cod are mostly gone, and a vessel of quite a different ilk is needed for the same work—this time in pursuit of oil riches trapped in rock formations more than 3,700 m below the sea.

The \$5.8-billion Hibernia offshore oil platform—one of the biggest and most expensive production rigs in the world—is scheduled to leave in the second half of April from near the Grand Banks in early June. This week, weather permitting, the project will mark a crucial turning point, as the two major components of the platform perform a delicate mid-water mating ritual—the culmination of a six-year-long construction marathon (see page 30). And as with Cabot's voyage half a millennium ago, others are set to follow. Already, there are plans to develop two more major oil discoveries in the Beaufort/East Basin—the Terra Nova and White Rose fields—shortly after the turn of the century. Those will add significantly to the 655 million barrels of oil that Hibernia is expected to pump out over its 20-year lifespan. At the same time, what seems destined to become the world's largest rock-cut marine operation should be under way at Vatsey's Bay, Labrador, providing at least 1,000 jobs and new royalty wealth to the province. The moral flattery of resource activity is even fueling the sentiment that maybe—just maybe—the perennial hard-luck province is about to get a break. "There's a growing bubble of confidence," says Newfoundland Premier Brian Tobin, "but this time we're going to burst the moment."

This being Newfoundland, however, there is also a lurking suspicion that something or someone will come along to burst that bubble. "There seems to be a very emboldened attitude," says Bill Rawe, a constant provincial cultural minister and host of the province's most popular pipeline radio show. "On the one hand, people say 'Oh, finally, we're going to arrive economically.' On the other, there seems to be a fire persuasion and cynicism that we're not going to get anything like our past rewards." In a simi-



Inuits. Wade Lusk, an economist at Memorial University in St. John's, ticks off several reasons why there should be better days ahead for Newfoundland, but then quickly adds: "We can always do things to screw it up. That's always a possibility."

Newfoundlanders have learned to take little for granted. After generations of watching their fortunes rise, and fall with the price fetched for fish, oil, gas, minerals and hydro power, they are naturally wary of anything that looks like being the next big play. Memories of past disappointments are simply too fresh. In the 1970s, there was the Come-by-Chance oil refinery, the bankrupt New York City portman John Shafroth. The province sank millions into the poorly conceived project before it suddenly went bankrupt and closed. (The refinery eventually reopened under new management in 1987.) In the 1980s, there was the saga of The Spring greenhouse, an attempt to implement hydroponic growing techniques to the island. It was bedeviled by production problems, including a lighting system designed to compensate for the cloudy weather that caused caused cucumbers to grow out of control, crushing tables and snapping support cables. By the time the greenhouse went into receivership, taxpayers had lost more than \$80 million.

But these failures pale beside the enduring bittersweetness over the 1989 agreement that allowed Hydro-Québec to buy power generated from Churchill Falls, Labrador, with an acreage increase for 85 years. Events quickly conspired to give Quebec an additional-dollar windfall while Newfoundland made do with ever dwindling profits. Last fall, Tobin launched a cross-Canada public relations offensive aimed at shaming Quebec into re-opening the deal. The rhetoric could not be more strained and raw: it's been a Tobin and Quebec Premier Lucien Bouchard during the Trans-Canada trade mission to Asia. Senior officials of both governments are now engaged in preliminary talks aimed at resolving the dispute and paving the way for developing new hydroelectric sites in Labrador.

Meantime, in Labrador's case, there is a growing recognition among Newfoundlanders that no single development, however grandiose, is going to wash away their economic woes. Officially, the province's unemployment rate stands at 30 per cent—the highest in the nation. Unofficially, it is much higher, as the 1982 moratorium on the northern cod fishery—which lasted three times longer than the southern cod fishery—wholly devastated more than 30,000 fishermen and fish processors in jobs—continues to cast a pall over the 800 communities that dot the coastline. Newfoundland still relies on \$1 billion a year in equalization payments from Ottawa. And as other federal transfer payments are reduced, the provincial government finds itself increasingly hard-pressed to provide basic such as health care, education and just maintenance.

Yet for all that, there's little doubt that the recent resource sector bust is shaping up as the glutton. For one thing, Hibernal has already injected an estimated \$42 million in direct investment into the



Arnold Voisey
Chairman
Voisey's Bay Nickel
"We have to look at our renewable resources"



Hibernal
An iron ore port
in Labrador

We can always do things to screw it up'

province, promised up to 5,000 construction jobs and given a number of Newfoundland engineering and high-tech firms a shot of hope. Jerry Bishop, president of BFL Consultants Ltd. of St. John's, says that without Hibernal, his engineering firm would still have a staff of perhaps 20 people scrambling to compete on the few major capital projects that come along. Instead, he says, BFL now employs 60 people and is using the expertise gained through Hibernal to compete for work at Voisey's Bay and Nova Scotia's Sable Island gas project. "You can tell all the staff and talents you like, but if it's no good unless you have the opportunity," says Bishop. "Well, hopefully Atlantic Canada, we can look forward to some big opportunities."

Somber optimism can be found in Arnold's Cove, a fishing community about 1,500 located 30 km west of Hibernal's Bell Arm construction site. Residents are now pinning hopes for new jobs on two imminent developments—the \$22-million bid for shipping Hibernal crude that is to be built five kilometers north of Arnolds

Cove, and the \$1.5-billion Voisey's Bay nickel smelter and refinery slated for Argentia, 60 km south of the town. "People are generally upbeat," says Arnolds Cove Mayor Tom O'Byrne. "There's more positives happening in the province than there has been for quite some time." But even here, the now Newfoundland skeptical prognosis "People tend to be a little apprehensive at times and wonder if it's all real," allows O'Byrne. "But if course we know that it's real and a matter of waiting for things to happen."

Certainly, Newfoundlanders had to wait long enough for Hibernal, all the while wondering, as the project lurched from crisis to crisis, if it would ever come to pass. Churchill Canada Resources Ltd. drilled the first hole in the huge Hibernia field in 1979. But tantalizing oil prices in the 1980s and the high costs of extracting the oil from crude caused it to last another 12 years of haggling before four oil giants—Mobil Oil Canada Ltd., Chevron, Petro-Canada and Gulf Canada Resources Ltd.—combined to agree an arrangement to exploit the reserve. Even then, it required a number of government concessions. Newfoundland agreed to reduce its royalty rate in exchange for new jobs. And the former Conservative government in Ottawa coughed up \$1 billion in grants and another \$1.7 billion in loan guarantees—a move that, to this day, leads critics to charge that the project will likely more than a sop to the oil companies and a blatant attempt to buy votes in Arctic Canada.

Key to securing the financing was John Crosbie, then the senior Newfoundland member of the federal cabinet. In a recent interview in his St. John's law office, Crosbie recalled how the 1989 Hibernal deal was doubly controversial because of its pricing. Former Newfoundland premier Clyde Wells had just played a crucial role in killing the Meech Lake accord, said Crosbie, and "many of our members, especially from Quebec, were completely pissed off. There was opposition to having been tricked in the use of Wells and turning around and putting billions into Hibernal." Crosbie even

suggested the platform to the ocean floor. The choice of a gravity base, rather than a much cheaper floating platform, had long been controversial. Newfoundland had pushed for the gravity base, partly for safety reasons, but also because of the number of construction jobs it would create. By contrast, Petronas Canada will use a floating platform to drill for the 400 million barrels of oil in the Terra Nova field.

For all its past woes, most financial analysts now conclude that Hibernal will turn a tidy profit for its owners. Some even predict that Canadian taxpayers will see a return on

Voisey's Bay showdown

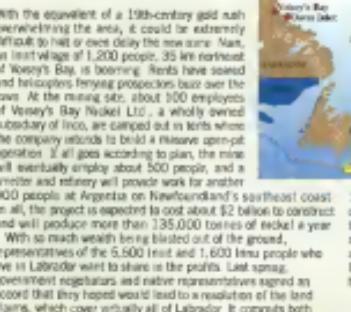
Simon Tahapapetsh has always hunted for his winter food. Ninety every winter, he travels by snowmobile from his home in Davis Inlet, 300 km north of Goose Bay, Labrador, deep into the forest where he hunts for partridge and caribou. The hunting has been good this winter, but Tahapapetsh worries that the animals may disappear when a giant hole is blasted out of the rock at Voisey's Bay, only 70 km north of his home. It was there in 1993 that two prospectors working for Weisseer mining promoter Robert Friedland, discovered a massive nickel deposit. In 1996, Toronto-based Inco Ltd. paid \$4.3 billion for the property, and the company wants to have a mine operating at full site by the end of the century. But before the project goes ahead, the Inuit and Innu people of the region want Ottawa and Newfoundland to sign a comprehensive land-claim agreement that recognizes their ownership of the region and ensures that they receive a share of the profits from the mine. Without a deal, says Tahapapetsh, an Innu negotiator, they are determined to stop the development. "It's our land," he says. "They can't just take it."

With the equivalent of a 19th-century gold rush overwhelming the area, it could be extremely difficult to hold or even delay the mine. Man, an Inuit village of 1,200 people, 35 km northeast of Voisey's Bay is booming. Rents have soared and helicopters ferrying prospectors buzz over the town. At the mining site, about 100 employees of Voisey's Bay Nickel Ltd., a wholly owned subsidiary of Inco, are packed out in tents while the company intends to build a 4,000-tonne open-pit operation. If it goes according to plan, the mine will eventually employ about 500 people, and a smelter and refinery will process rock for another 900 people at Argentia on Newfoundland's southeast coast. In all, the project is expected to cost about \$2 billion to construct and will produce more than 135,000 tonnes of nickel a year.

With so much wealth being blasted out of the ground, representatives of the 5,500 Inuit and 1,600 Innu people who live in Labrador want to share in the profits. Last spring, government negotiators and native representatives signed an accord that they hoped would lead to a resolution of the land claims, which cover virtually all of Labrador. It commits both sides to finding an agreement on ownership of the land, environmental protection, job guarantees for natives and royalties on profits. Chryslyn Andersen, a consultant working for the Labrador Inuit Association, said native leaders are under growing pressure from their own people to resolve the impasse. "A lot of people are looking for jobs," said Andersen.

Whatever the outcome, Voisey's Nickel is determined to get resources flowing sooner rather than later. Company vice-president Rick Gill said that, even without an agreement, Voisey's will be in a legal position to proceed with the name in 1998, when an environmental study of the project has been completed. And while Newfoundland Premier Brian Tobin refused to discuss the stand-off with Andersen, he insisted that the native demands could be accommodated. "In terms of the agreement between all the players," predicted Tobin, "Voisey's Bay should be a model for Canada." Until the native community has a solid deal, they are unlikely to share that opinion.

TOM FENWELL



ually prevailed, but the government delayed the legislation confirming the Hibernal agreement for several months to give Quebec time to cool off.

Crosbie also became embroiled in the next skirmish to hit Hibernal—Gulf's decision, in February 1992, to withdraw in 25-per-cent stakes in the project. Aytar-Oak, Oilinex agreed to do what it had and it would never do, and assumed an 8.5-per-cent equity position in Hibernal, at a further cost of \$100 million. Chevron and Mobil also took on another 3.5 per cent, while a new partner, Murphy Oil Corp., assumed the remaining 6.5 per cent. By the past, says Crosbie, Canadians were tiring of haggling over Newfoundland. Only a few months earlier, Ottawa had looked in \$1.5 billion for idle assets affected by the oil macaromassene. The feeling was that the east-side Newfoundlanders had gotten enough, says Crosbie. "We're no longer looked upon as something any more."

The setbacks for Hibernal were not over yet. In the spring of 1994, the partners acknowledged that the proposed \$1.5 billion over budget and one year behind schedule. Much of the blame lay with unforeseen complications in constructing Hibernal's massive gravity-base structure, which is to anchor the platform to the ocean floor. The choice of a gravity base, rather than a much cheaper floating platform, had long been controversial. Newfoundland had pushed for the gravity base, partly for safety reasons, but also because of the number of construction jobs it would create. By contrast, Petronas Canada will use a floating platform to drill for the 400 million barrels of oil in the Terra Nova field.

For all its past woes, most financial analysts now conclude that Hibernal will turn a tidy profit for its owners. Some even predict that Canadian taxpayers will see a return on

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SPECIAL REPORT

their lucky investment. "The economics of this project have been sound for a number of years," says Duane Matheson, an oil and gas analyst at Gordon Capital in Toronto. "But just trying to make people believe that is a challenge."

When former Newfoundland premier Joey Smallwood began touring the Churchill Falls project in the 1950s, he described it as "a grand imperial concept." These days, Newfoundland politicians have better things to raise expectations too high. And so when the province's energy minister, Rex Gibbons, is asked in an interview of the rapid succession of Hibernia, Terra Nova, White Rose and Vinesay Bay represent a new "miracle" for the Newfoundland economy, he responds as if he has been urged to utter an obscenity: "Oh, I wouldn't even use that word," replies Gibbons. "This is just the development of another sector."

Instead, the buzzword in St. John's is one that has been heard for at least a decade now: diversification. Unless the province can wean itself from its historical dependence on natural resources and federal transfers, the argument goes, it's destined to be Doug House, an economist at Memorial University recently ended a six-year stint as head of the Economic Recovery Commission, a body set up to study ways of diversifying the economy. Among other things, the commission encouraged regional leaders to promote the province as a good place to invest. "The main thing," says House, "is to get out the message that there's a lot more to Newfoundland than fish, cod and abused kids at Mount Cashel."

House adds that, as welcome as they are, the 800 permanent jobs that Hibernia promises—the 1,000 promised by Vinesay Bay are "a drop in the bucket compared with what is needed." Much more must be done, he says, to build on the success Newfoundland has already enjoyed in emerging fields such as marine technology, aquaculture and telecommunications. House points to the example of Derriford Bay, a young St. John's native who has left Stentex Global Corp. over the past decade into a leading provider of satellite communications.

Rawn, whose company has several international offices, says that distance from mar-

kets is not an obstacle in the high-tech sector. And it surely makes economic sense, he adds, to keep his head office near St. John's, where property rates are low, wages are competitive and the university provides a steady stream of bright graduates. "If we keep our smart people working here, we'll be rewarded," says Rawn. "We don't, we'll pay the consequences."

But not everyone is qualified to work in the high tech field—nor, for that matter, for one of the major resource industries. And among those in Newfoundland's oldest industry—the fishery—there are concerns that the times are passing them by. Tom Best, a fisherman from Petty Harbour near St. John's, says that not nearly enough fish-

SPECIAL REPORT

SLOW AND STEADY



Brian Tobin's "It isn't any one project that's going to be the salvation."

Brian Tobin recently marked the first anniversary of his election as premier of Newfoundland and Labrador following a colourful 16-year stint as federal politician, including three years as minister of fisheries. He returned to his home province at a time when Newfoundlanders were still reeling from the mostly flew-past-long misfortune as the northern cod fishery. His own government was added to the ranks of the jobless, laying off 500 civil servants in the past year as part of a cost-cutting campaign. But with the launching of the Hibernia offshore oil rig and recent success in the assessment of Newfoundland's offshore oil and gas reserves, the province's fortunes are looking up. In fact, the province's economic situation is improving, according to Brian Tobin after his speech at St. John's Airport.

Maclean's: You've been fairly careful not to offend the regional that Hibernia will have on the province. Why is that?

Tobin: Newfoundland had had a long history of getting attracted to big singular projects and looking to those as the salvation of the province. One of our government's objectives is to break away from fatality. We have to realize that it isn't any one large project that's going to be the salvation, but rather existing industries that are self-sustaining over a longer period. That's the focus for me, not Hibernia.

Maclean's: Do you foresee a time when Newfoundland will be a lesser power?

Tobin: Yes. I do foresee such a time. But it is at least a decade away. You have to remember that the disparity in terms of in-

comes, standard of living and quality of services between Newfoundland and the rest of the country is still quite dramatic. But also remember something else: when we start slanting in the resource revenues, we're caught in this trap called equalization. It's a wonderful trap—we couldn't exist without—but it costs a fortune. We start making revenue dollars and we start losing equalization dollars and the net effect for the province and government is a very, very marginal improvement. At this point, we're still receiving a billion dollars a year in equalization payments. So we've still got some ways to go before we can stand on our own two feet. But that's precisely where we want to be.

Maclean's: The province has been trying for years to move itself away from dependency on oil and gas. Is this a healthy or fatal disease or can it be fixed?

Tobin: If we do develop oil and gas wells and—a matter how big or how large—new mines, then the cycle of dependency will not be broken. What we also need to do is give the tourism sector, continue to grow the education, schools, youth sector, previous agriculture. Those are areas where wealth can be created and employment expanded.

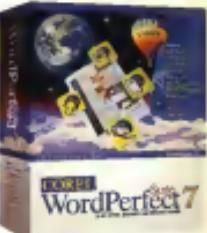
Maclean's: One of the bright spots of Hibernia, when there were 5,000 new construction jobs at the go, recent numbers of people fled Newfoundland for other parts of the country. Why is that?

Tobin: It's directly attributable to the collapse of the fishery. Canadians have to appreciate that this was the equivalent of the collapse of the entire auto sector in Detroit. That's what we've had to adjust to. It is huge. Now, I happen to think one of the great things about Canada is that our young people have the opportunity, should they choose to exercise it, to work and live elsewhere. I don't think that's a sign of failure. But what I want is an economy that, if it sends highly skilled young people away, it's because they choose to live and work somewhere else. That's not the case now. They are going because they are compelled to do so.

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ONE OF A KIND

The Hibernia rig is an engineering wonder

On a crisp, clear February afternoon, the mechanical creaks—the so-called topside of the Hibernia drilling rig—towers over the storm-tossed waters of Newfoundland's Bell Arm, just around the bend, hidden by snow-draped mires and trees, sits another engineering wonder—a 583,000-tonne concrete-and-steel behemoth with the even more grandiose moniker of “the gravity-based structure,” or GBS, that will anchor the topside to the ocean floor. The raising of the top and bottom of the Hibernia rig, scheduled to take place this week, marks the culmination of six years of engineering and construction that, at its height, employed more than 5,000 people working on three different continents. “I don’t think,” says Hibernia construction general manager Ileak van Zante, “that’s a more complicated civil construction project will ever be built.”

Ever in a long time. But there is no doubt that the \$5-billion Hibernia platform is in a class of its own. Much of the project’s complexity—and cost—is directly attributable to the owners’ decision to go for a huge concrete platform that will remain locked in place over the 20-year life of the drilling operation. Moreover, Hibernia will be drilling for oil off the Grand Banks, in areas famous for wind, fog, 30-m waves—and, of course, icebergs. The platform is to be placed 200 km north of where a gale was struck and sank the *Titanic* in 1912, in a chasm that is often called “Cobourg Alley.” If Hibernia is to function safely, explains David Lasher, engineering manager for the GBS, it must be able to absorb an iceberg’s impact, when he likes to—“600 tonnes of ice going up against a 100-square-metre area of space.”

There are about 20 gravity-based offshore platforms operating worldwide, most of them in the North Sea. But Hibernia is the first to be constructed with the threat of roaming icebergs in mind. In chief defense will be a outer wall consisting of 35 concrete walls, each 15 m thick, that are meant to distribute the force of the iceberg over the entire structure. According to its designers, the platform could withstand being hit up to 100 times. And because Hibernia will be located in relatively shallow water—80 m deep—they calculate that intruders of that magnitude should only show up once every 10,000 years. Impressive odds, but University of Toronto engineering professor Michael Collins cautions that “nothing is inviolable.” It may only occur once every 100 millennia, he adds—but that doesn’t mean it couldn’t happen next year.” Having said that, Collins, who is a leading authority on gravity-based platforms,



The base of the rig is
driven into a
more peaceful
portion of the
ocean.

furns, says that Hibernia is “as safe as any comparable structure in the world.”

But nothing about Hibernia, it seems, was done on a modest scale—starting with its main 1,600-hectare construction site at Bell Arm, 150 km northwest of St. John’s. Prior to 1980, this was just another picturesque pocket of Atlantic Canada—ancient rocks, wind-blasted trees, undisturbed waters; but then the bulldozers and dynamic crews moved in, clearing the way for 15 km of paved roads connecting Bell Arm to the Trans-Canada Highway and a construction camp that included accommodations for 3,500 workers. A small community soon sprang up, complete with a water and sewage plant, softball diamond, library, post office—and a helipad landing pad.

The next step was to create a dry dock for the GBS by creating a

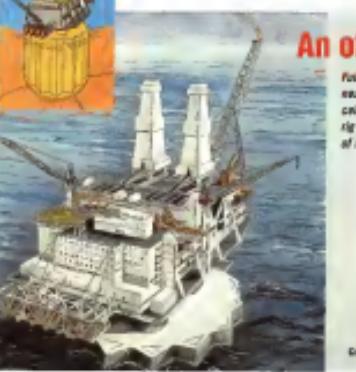
beam across Great Mosquash Cove and pumping out 145 million litres of water. About 100,000 litres to the north, a pier was built for the topside facilities. Near the pier, workers drained a small lake to make room for a drydock, as part of an attempt to protect the environment, while 280 knot were caught in nets and moved to neighbouring ponds.

Construction of the GBS began in September 1992. Two years later, the base of the GBS—the length of two football fields and weighing 130,000 tonnes—was ready to be moved to its present site, about a mile offshore, where the water is 207 m deep. The plan was straightforward: water would be pumped into the dry dock and, at a certain point, the beam on Great Mosquash Cove would be removed. As the water pressure rose, the GBS would begin to float. It would then be moved out to the deeper waters of Bell Arm and anchored in place with six kilometers’ worth of mooring chain. At this point, says van Zante, some of the corporate masters were wondering whether could something as heavy really float? Not only did it do so, but it started to sway after four minutes of the low-level engineers had predicted.

Once the GBS was secured in the deeper waters, workers continued to pour concrete and, layering steel over the mould until it reached its full 85-m height. During this period, as many as 3,000 workers were being ferried to the construction site every day, while up to 40 barges carried the ever-expanding GBS. The barges included a floating batch plant where the concrete was mixed, a power barge, and another one holding 80 offices. “It was quite a floating city out there,” recalls van Zante.

As the massive base of the Hibernia platform was being finished, the pieces that would make up the even taller topsides began to arrive for assembly at the nearby pier. The topsides consists of five supermodules—two of them built in Korea, two others in Italy and the fifth one at Bell Arm—that contain all of the drilling, producing and power equipment, as well as the living quarters for the 380 workers who will operate the offshore platform on a 24-hour basis. It also includes the drilling derrick, the 115-m-long flare boom that will burn off gas released during drilling, two helipad stations, and a helideck that will be used for shuttling workers in and out of St. John’s for their three-week shifts.

The topside pieces were all welded together at Bell Arm, the result is now perched on the pier, looking like nothing so much as a man-made space station inexplicably plunked down in the stark landscape of coastal Newfoundland.



load. This week—if the weather co-operates—two heavy-lift barges will carry the topsides over to the GBS, which has already been gradually submerged. This was done by opening up an underwater valve and pumping seawater into the structure to weigh it down. With only 10 metres of the GBS’s uppermost shafts protruding above the water, the topsides will be floated over it. When the two structures are precisely lined up, workers will begin to pump the water out of the GBS, which will then tilt and connect to the topsides. Once joined, the entire structure will stand 234 m tall—roughly the height of the CN Tower and half the height of Taiwan’s TV Tower.

The mating operation, which will take five days to complete, is extremely delicate—Delmas describes it as “almost like weaving” and uses a very specific pattern to fit them together. “And the final structural detail do not always go off without a hitch. In 1981, a gravity-based structure owned by Statoil, the Norwegian government-owned oil company, collapsed under the pressure of water submerged in the North Sea and fell like rubble to the ocean floor. But if he was worried about such mishaps, van Zante had it well during an interview shortly before the Hibernia mating began. When asked what could go wrong, he smiled. “Nothing can go wrong,” he replied. “We have worked hard to make sure nothing goes wrong.”

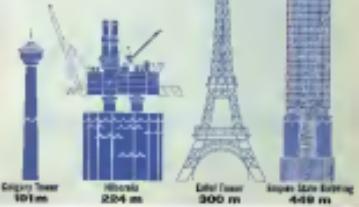
If van Zante’s confidence proves well-founded, the Hibernia rig will be towed out to its drilling site by nine tugs and balloons will be dropped inside the outer wall of the GBS to sink it to the ocean floor. The platform, then weighing a total of 1.2 million tonnes, will soon begin drilling up to 125,000 barrels of oil a day, thereby fulfilling a quest that began when the Hibernia oilfield was first discovered in 1978.

For the Dutch-born van Zante, who helped to build three earlier gravity-based platforms in the North Sea, Hibernia will be a major step. He plans to retire in April at age 65, although he will stay on contract until drilling commences. At that point, he expects to feel much as he did when he brought his family whisked him away from their other massive offshore rigs. “Everyone is saying, ‘Oh, it’s tremendous, mega-float.’ ” he says. “But then the bigger ticket of oil and you have to be fast to look back, because in a couple of minutes, even though the platform is so big, it’s nothing in the expanse of that ocean.” And that, he adds, “brings you back to reality. It keeps you very humble.”

BRAD BERGMAN at Bell Arm

An offshore skyscraper

Put simply, the Hibernia rig will be nearly as tall as some of the world’s most celebrated edifices. But the size of the rig (top left), which makes up almost half of its height, will be hidden underwater.



The legacy of a giant



Deng's death will mean new struggles in Beijing

BY CHRIS WOOD

It matters not what caused the **catastrophe**, Deng Xiaoping famously observed—it matters only whether it catches fire. With that aphorism, Deng launched Communist China on a wholesale retreat from the doctrinaire Marxism of his founding leader, Mao Tse-tung, and set it on a new path towards a free-market economy. And like a cat, Deng seemed blessed with multiple lives—he survived repeated jolts during his remarkable career before emerging in 1978 as Mao's clear successor—Chairman par excellence.

Thanks largely to the success of Deng's reforms, China is unlikely, at least in the short term, to see the same kind of sharp change of national direction that accompanied Mao's successors. Still, if only at least, Deng's death changes nothing. He abdicated all his formal party and government positions in 1989 and successors are already in place, led by President Jiang Zemin, 70, and Premier Li Peng, 88. But Li's second five-year term expires next year, and Jiang's performance since he assumed office in 1993 has earned him almost zero popularity. When Deng's military later cracked down on almost entire university in Beijing after students announced the leader's death early Wednesday morning, nearly 80,000 students took to the streets. Although flags flew at half-mast, shops, banks, government offices, and parks remained open. Television stations stuck to their schedules of sports, movies, and game shows, while a ban on news was lifted. Western pop music could still be heard on several radio stations. And there was no sign of an expected police or military buildup on the streets of Beijing—or indeed on several roads outside. And there was no sign of an expected police or military buildup on the streets of Beijing—or indeed on several roads outside.

Yet it is a measure of how much China changed under Deng that this passing caused so little turbulence on the surface of Chinese life. When Mao died in 1976,



Deng visits a village in the countryside; the president is likely to face leadership challenges

people wept in the street while the country descended into political chaos. The death of former Communist party chairman Hu Yaobang in April, 1989, provoked the rarest form of pro-democracy protest in Beijing, gathering in Beijing's Tiananmen Square, with thousands

gathered when Deng's military later cracked down. But there was almost zero sympathy for him in the capital after students announced the leader's death early Wednesday morning, nearly 80,000 students took to the streets. Although flags flew at half-mast, shops, banks, government offices, and parks remained open. Television stations stuck to their schedules of sports, movies, and game shows, while a ban on news was lifted. Western pop music could still be heard on several radio stations. And there was no sign of an expected police or military buildup on the streets of Beijing—or indeed on several roads outside. And there was no sign of an expected police or military buildup on the streets of Beijing—or indeed on several roads outside.

"It's much different than when Mao died and people stopped in the streets and bowed their heads," said Yang Huanming, a Beijing office administrator. "Tearns are different now. We have a better understanding of what's going on." Deng has not held any position for

leader as a "parrot" figure in Chinese history. But Clinton said he had mixed feelings about him because of his human rights record. In my case, world leaders were not invited to Deng's memorial service, set for Tuesday at the close of a one-day mourning period. Admirers said it would be a low-key affair attended by 10,000 people in the Great Hall of the People, with no big state funeral. Deng's widow and children sent a letter to Jiang, chairman of the funeral committee, saying Deng wanted his casket to be an eye bank, give his organs to medical research and have his body's ashes scattered in the sea.

It would be a fittingly simple and practical end for a man who devoted his life to policies that excluded the poor and oppressed of society. Born Deng Xiaoping in 1904 in the central Chinese province of Sichuan, he was the son of a modest, ill-educated factory manager. His father, also bearing the name of Deng, returned to his hometown in 1928 as a member of the Communist party and took up the fight against the Nationalist government of Chiang Kai-shek. It was while

COMEBACK KING

1944: China's future leader is born Deng Xiaoping on Aug. 22 in Pariang, a village in the province of Sichuan where his parents run a silk factory.

1950: Deng sent on a work-study program to Paris, and spends time in a French history class. He soon joins the Chinese Communist youth movement in France.

1955: He moves to Moscow to attend Sun Yat-sen University, which the Soviets have established to train Chinese Communists.

1958: Deng returns to China, joins the

Communist party and adapts the nom de guerre Deng Xiaoping. He is half-brother to a general, army chief of staff.

1959: Novelist of the Communist Red Star newspaper, Deng takes part in the Long March, a 10,000-mile trek West that the Red Army undertakes to escape rival Nationalist forces. He becomes a key ally of Mao Tse-tung, who has emerged as the Communist chief.

1969: Mao finally defeats the Cultural Revolution, Mao attacks Deng's pragmatism, strips him of power and banishes him to the provincial capital Nanchang.

1973: Deng apologizes to Mao

and world leaders are shocked when Deng is introduced at a state dinner as vice-president.

1979: Under pressure from the leftist Gang of Four, Deng is again appointed to power. But following Mao's death in September, all four are arrested.

1981: Deng is renamed vice-president.

1987: He emerges as China's paramount leader and launches the Four Modernizations, liberal economic reforms that will transform the country.

1991: Deng assumes the chairmanship of the Communist party military commission, a key lever of his power.

1999: He supports the use of troops to crush a rebellion of students in Tiananmen Square.

2002: Deng begins to drop from sight, resigning posts including head of the military commission.

2003: Rumors circulate that he is seriously ill.

2004: After a long absence, Deng makes his last public appearance at a party function in Beijing.

Reform led to 'a huge perceived moral vacuum in China'

Living under round-the-clock surveillance in Shanghai that he assumed the name Deng Xiaoping, initially as an alias. Averns of the 1954-1955 Long March, a touchstone of Chinese revolutionary mythology and political stature, Deng's star rose quickly once the Communists seized power in 1949. By 1955, he was a leading member of the all-powerful Politburo and later became party general secretary.

But in the Cultural Revolution that Mao unleashed on China in 1966, Deng was denounced as a "capitalist roader" and banished from Beijing. He spent the next four years in a small Jiangxi province, serving food to party officials in a sauna hall and working in a factory making tractor parts. After the tempest of the Cultural Revolution subsided, Deng returned to influence in 1975 before being purged yet again in 1975. In that same year, however, Mao died, and a clog left by his widow (knowing along with her associates as the Gang of Four) faded. The following year, Deng returned once more to Beijing and to power—that thus successfully summarizes several rounds to become paramount leader.

Administrative clearout, it turned out, Deng possessed a wide-ranging curiosity and open-mindedness unusual among his revolutionary peers. "His eyes were always sparkling," recalls Earl Drake, Canada's ambassador to China in the 1980s, who met Deng on several occasions. "He had such a lively intellectual curiosity. He was very quick on the uptake, very quick in response." He also possessed a dry sense of humor. When former prime minister Brian Mulroney paid Deng a state visit in 1986, he remarked to the Chinese leader that Canada had too much space and not enough people, while China had the opposite problem. Replied Deng: "You're absolutely right. One way to solve the problem would be for us to send you people. How many would you like? Ten million? Twenty million?"

In what he sometimes called China's "Second Revolution," Deng in late 1978 unveiled economic reforms that within a decade had transformed Chinese living standards. Embracing the aphorism "To get rich is glorious," Deng dismantled central state control over most production and pricing decisions, encouraged enterprise by foreign companies to keep profits they earned and opened China to foreign investment for the first time since 1949. But the lifelong Communist "certainly was no democrat," notes Drake. Deng did nothing inimicable between free market and representative politics. He steadfastly opposed democratic political reforms and ordered the bloody 1989 crackdown on the protesters in Tiananmen Square, in which an estimated 3,000 died. In Hong Kong last week, demonstrators organized a banner labeling Deng "the author of despotism" as mourners gathered outside the local office of China's Xinhua news agency.

He death leaves power in the People's Republic in the hands of a collective leadership headed by Jiang Zemin, which is committed to maintaining the course of economic reform. Few observers doubt that the communists will succeed—at least in terms of overall direction. For China's 1.3 billion people, Deng's reforms have produced the country's longest period of sustained stability and economic growth this century. Per capita income has doubled to more than \$700 by traditional measures, and has soared to \$4,000 when purchasing power is taken into account (Canada's \$30,000). The social reorganization of blinding wealth and uniform blue "Mao suits" is long gone.



Blooming: Deng in Shenzhen economic zone, near Hong Kong; *AP*

Against that track record, it would be a brave leader who undertook to return to democratic socialism.

What that is now, some analysts downplay the likelihood of a post-Deng power struggle under Zhao Ziyang—Beijing's version of the Kremlin. "This is not about the transfer of power from one supreme leader to the next," Howard Balluch, Canada's current ambassador to China, observed in a recent speech. "It is about reengagement in a largely collectivist leadership model; there is a very large consensus about the broad direction in which China is headed."

But that heady, come-nata-maksa strength terraces among senior Chinese leaders on particular policies. While low China-watchers expect Deng's death to spark any immediate instability, many believe it will usher in a new debate about the many problematic side effects that have accompanied market reform. "There are certain things," notes University of British Columbia sociologist and legal scholar Phoenix Potter, "that could not really happen while Deng was still alive." For example, Potter says, Deng's successors may be forced to allow a critical re-examination of the political events preceding to the Tiananmen Square massacre.

But more head- and belt-tighters also loom over the Chinese leadership. While some Chinese entrepreneurs have gotten rich gloriously, many more (including Deng's own offspring) have done so thanks to family connections with influential members of the Communist party hierarchy. The perception of widespread nepotism and corruption, as well as increasing disparities of income, have fueled growing restlessness among the poor. At the same time, many Chinese

young citizens, especially the burgeoning industrial centers along the Pacific coast, are struggling to accommodate a flood of skilled immigrants seeking a share of the new wealth.

Other challenges threaten the leadership's ability to maintain the pace of reform. Money-losing state-owned enterprises, many of them in capital-intensive heavy industry, continue to drain cash from the economy while ill-trained managers resist restructuring measures. Their reluctance is shared by central planners, who are clearly aware that such measures would cost millions of jobs, creating a huge potential backlash. China allows no unemployment or social safety net to buffer the effects of sudden economic dislocation. Meanwhile, the breakneck pace of development since 1978 has produced such appalling pollution that in some centres further growth may be restrained by short-

ages of clean water. In addition, Li's second five-year term expires in 1998, and he has told others, including some Canadian contacts that he plans to retire after completing the term.

Other risks for Deng's mantle may come from outside the ignominious circle of the collective leadership. Jiang Zemin, former party secretary in the burgeoning southeastern province of Fujian, represents a younger generation of technocrats with growing political ambitions. People's Liberation Army Chief Li Ruihuan is believed to share the military rank and file's lack of enthusiasm for Jiang, but he may prefer the role of backbone power broker to becoming a high-profile civilian leader.

The stontest challenge to Jiang's rule may come from Qiao Shi, the 78-year-old chairman of the National People's Congress.

Under Qiao, the traditional, though compliant rubber-stamp body has shown a greater willingness to exert its constitutional powers as the highest organ of the Communist state. Qiao is also one of the few influential leaders who opposed the Tiananmen massacre. As a former head of the regime's internal security apparatus, he is an ally to those well-acquainted with his considerable weaknesses.

The jockeying for position is likely to break out in the open when the political apex of the supreme Communist party congress convenes in Beijing, probably in October. But whoever emerges as the eventual victor, the

very nature of the struggle is succeed or fail may reveal much about his legacy. On one hand, the self-strengthening pragmatists demand the promptly cut dairyous Mao and disengaged attempts to develop a stable, cool, modern himself. On the other, notes Drake, "he failed to find a truly worthy successor." Similarly, Deng overthrew a disastrous Maoist ideology but for decades delayed the inevitable turn and banish, but was unable to find any more compelling alternative than personal greed. The unassuming men who have ruled during his retirement have relied largely on outreach to counter growing strains between China's increasing wealth ("haves") and its old-legions ("have-nots"). The result, notes Potter, has been "a huge perceived moral vacuum in China."

Now, Potter adds, "the person likely to get the gold ring will be the person who is able to articulate a vision for China." Or it would if Deng Xiaoping might have had, or it is no longer enough that the cat catches mice—it must have a purpose.

By PAUL MCGINNIS in Beijing

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By Andrew Phillips

The spy who sued over Canada

The possibilities of any nation are always more slippery stones when they are played out against a foreign backdrop. What seems tame, markable at home can appear strange, even exotic, abroad. So it was last week with the curious saga of Keith Kerner, the American intelligence analyst who suddenly emerged with a convoluted tale involving the military, Canadian intelligence officers and possible spying on Quebec's representative in Washington. All three parties lived up July in their national stereotypes. The Canadians receded in horror that the whole affair had become public—and loudly demand that they take any special interest in the activities of an agency of a government that is, after all, dedicated to breaking up Canada. The Quebec government always eager for a chance to put Ottawa on the spot, immediately called for an inquiry into "acts of espionage" by what its national relations minister Sylvain Sainte, darkly labelled "The Canadas' agents." And the Americans? They honored his own national institutions by closing what copies internally he used.

It was Kerner's lowest that above a rare light on the uneasy relationship between federal officials and Quebec's tiny office in Washington. Kerner, a 48-year-old agent with the U.S. Defense Intelligence Agency, a little-known branch of the Pentagon, took his own agency to court because it offered him not to attend an audience conference on relations between the United States and a sovereign Quebec. The tale he told was bizarre. Last Oct. 26, he attended another conference in Quebec City and spoke publicly about the military implications for Washington of Quebec independence. Federal officials listening in did not like what they heard—especially coming from someone who at the time specialized in Canadian affairs for an American intelligence agency.

"What exactly did Kerner say?" He wasn't telling his work. But according to James Jackler, a leading graduate of Canadian studies at St. Lawrence University in Canton, N.Y., who arranged the conference, "He said that from a strictly military point of view, there was no problem for the United States with an independent Quebec. It's politically incorrect to say it, but he did a hand-lined

A U.S. agent's story highlights the cold war between Ottawa and Quebec

close to assuring the Canadians of spying on Quebec's man in the U.S. capital—but he never actually used the word. Last week he backed away from that suggestion his lawyer, Vieira Glusberg, said Kerner had never meant to imply that the federal officials were spying on Boucher. If he'd thought that, said Glusberg, Kerner would have gone straight to the FBI instead, he complained to the Canadian Embassy in Washington.

The next day, Nov. 5, Kerner was summoned by his supervisor, said that Taylor had lodged a complaint against him, and was ordered off the DIA's Canadian "second."

But Kerner's acerbic views had an impressed Jackler that the professor invited him to another conference to be held in Canada last week under the aegis of the Association for Canadian Studies in the United States. Never mind that the meeting

military analysis. Federal officials, of course, prefer to emphasize the disruptions and difficulties that might accompany secession. Alors bella started to go off in Ottawa and Washington.

At the same meeting, Kerner recharged business cards with Marc Boucher, a general former historian who is Quebec's chief representative in Washington. The two men arranged to have lunch on Nov. 4. But that morning a Canadian agency on exchange with the DIA named Michel Prud'homme queried Kerner about his relations with Boucher. According to Kerner, Prud'homme and he were "working" the request of Col. R. J. Taylor, Canada's liaison officer with the agency. In his lawsuit, Kerner claims

was to be a closed-door, invitation-only of four, discussing articles for a special issue of the association's journal devoted to relations between the United States and an independent Quebec. And a never mind that representatives of both the federal and Quebec governments were invited. When the Canadian Embassy heard that Kerner planned to take part, Taylor again raised questions at the DIA. The agency was clearly sensitive to those concerns. It ordered Kerner not to attend because he was told in a memo dated Jan. 28, "of the clearly predictable adverse impact your participation would have on relations between the United States and the Government of Canada."

That's when Kerner met with the whole

messy story spilled out. He asked a judge to

order the DIA to lift its ban on his attendance at last week's conference—surely the first time anyone has gone to court for the right to do something many Canadians might well pay to avoid: stand all day and debate the country's constitutional woes.

Eventually, the agency softened its stand

and acknowledged that it could not stop him

from attending. And the judge threw out

Kerner's motion for an injunction. He took

part in the conference—but he may still face

disciplinary action if his bosses decide that

he broke guidelines for U.S. government

employees who speak in public.

If anything, the caustic undercurrents the extreme sensitivity with which federal officials view the activities of Quebec's rep-

resentatives abroad. The enmities between the Canadian Embassy and Quebec's un-

pressive office in Paris are legendary, but

the jockeying in Washington has generally been more muted. The Americans' govern-

ment is as benevolent as reception 10 the sover-

eign case is the French, and on the fact of it,

the competition is far from even.

Boucher operates with a single assistant

out of a small office in Washington, while

Canada's impressive embassy at Frenchman

avenue is staffed by no fewer than 350 people.

And the two sides hardly hide from each other; they frequently discuss ways to attract American investments to

Quebec, and run across each other in the

small world of people who care about Cana-

dian-U.S. relations. In the end, the affair seems quixotically enough a spy saga

without any actual spying.

Team Canada 1997

TAKING ON THE WORLD

I have had to choose a star player from the Team Canada 1997 roster, chances are Carol Ann Glazier would be an unlikely pick.

The art dealer from Arthur is not one of the people you would normally expect to see stepping off the plane as such a high-powered, high-profile trade mission. She does not represent a big, important industrial firm. She is not a top-flight expert. Yet Glazier is representative of what Team Canada is all about: a cross-section of the remarkable diversity that makes this country tick and throb.

She was just one of the more than 500 participants who joined their feet alone — about \$10,000 — to take part in what is considered to be the most successful and comprehensive trade mission in Canadian history.

If she ever had any doubts about the need to take part and make a venture to promote Canadian artistry abroad, the trip dispelled them completely.

As she steps plaudit, she made more headway in 12 days than she did on a previous three-month trip to Japan. "People are interested in Team Canada," she says. "With it, they aren't just looking at a static art company or an over \$10 million a year package." In other words, by being part of the delegation, she was in a better position to open doors that were once shut to her.

These same words could have been spoken by just about any player on Team Canada 1997, no matter the size, power or agenda. Two words could have summed it up: it works.



The mission was a whirlwind tour of Korea, the Philippines and Thailand, countries that are part of one of the fastest-growing economies in the world — Asia Pacific, which bought \$807 billion of Canadian export products in the first 11 months of 1996.

The Prime Minister of Canada, a pint-sized prime ministerial foot-in-the-door and city mayors; business people from both large and small businesses, from high-tech industries to the arts heads of universities and colleges and of business organizations and associations; students and young entrepreneurs; and members of the media all travelled together to open new export markets and create jobs at home.

Team Canada 1997 — the third such mission to Asia — brought home \$3.1 billion of business and the potential for even more down the road. They are deals and transactions that say that Canadian know-how, products and services are the best in the world and that Canadian businesses are acknowledged leaders in today's global economy.

And, as important as those agreements are for the companies involved, taking part in Team Canada was just as crucial to other members of the mission. Many were thrilled to return home with the promise of future success, while some had the satisfaction of having played as important intermediary role →



SPAR Aerospace Ltd. (Toronto) will construct communications-satellite system to the specifications of the Thai government. SPAR technicians are shown here performing a final alignment and inspection of MSAT (mobile satellite) payload at the David Florida Laboratories near Ottawa.

Beyond the obvious, beyond the profitably fascinating political drama that unfolds and the splashy headlines you read when Canada's Prime Minister, nine premiers, mayors and business people are thrown together for 12 days, beyond the high-stakes games of international market competition being played out, beyond the glamour of it all, Team Canada 1997 was a priceless opportunity for Canadians to stake their claim in the international marketplace.

From Internet technology to ILC, coal mining, from New Brunswick stuffed lobsters to television communications systems, from churches to log cabins, from SPAR Aerospace satellites to Canadian East's smart-camera technology from The Canadian Wheat Board's \$250-million wheat deal to a wine-tasting presentation from Newfoundland's Meldrum Cottage Winery, you got the impression that every part of the country had something important or unique to sell and contribute to the purpose of Team Canada 1997.

United they fly

"Many Canadian companies find out when they travel that we are better than we thought we were," says Kazimir Olechnowicz, president of Laval engineering firm CIMA+. "If we are at the top, it's important to compare ourselves with the best in the world."

It is fascinating to see how participants in a Team Canada mission marry their strengths to present a formidable united front. By working together toward a common goal, the members of this high-profile confirmation open doors and create on-the-spot opportunities, particularly for small business. The support of the Prime Minister, premiers and mayors enhances the credibility of participants in the eyes of prospective customers, business partners and investors. Those with experience in the international marketplace help give newcomers a leg up, by providing advice and sometimes introductions to potential clients. Solidarity breeds prestige and confidence.

Planning before takeoff

The spirit of co-operation began long before the plane took off. Government organizations, federal and provincial, began working immediately after the January 1996 mission to South and Southeast Asia, expanding the database of eligible companies, sending out invitations to 2,200 companies and following up by telephone, and consulting with key stakeholders such as the provinces and previous mission participants on ways to create an even more successful mission. The Canadian Chamber of Commerce played a key role in seeking corporate sponsorships to defray costs and lining up keynote speakers for workshops and meetings.

Getting to know each other on board

The positive energy generated by all participants being in the same boat – or, literally, on the same plane (a first for a Team Canada mission) – is contagious, as delegates have the opportunity to exchange views and ideas in casual circumstances and to discover how they can work and trade with each other.

It creates one of the most profitable offshoots of the mission – what some have dubbed "Domestic Team Canada" – that is the building of closer ties among the participating companies, associations, institutions, politicians, government officials and individuals.

Carol Brunet, of Greenfield Park's Cogicom Informatique Inc., sums it up: "In 10 days, you make friends. You build an important network of support and co-operation. There's no other way."

"The networking we are doing with all those Canadian companies is as important as making contact with a potential client in Korea," says Jean-Pierre Saunel, president and CEO of DISSAU Inc. of Laval.

There is a very pragmatic reason for that, "Doing business alone in those countries is tough," explains Saunel. "So if you can find potential partners with other Canadian companies, it's much easier for us. If they have a potential project, they'll give us the information or we may go together on the project."

Another new initiative this year contributed greatly to the positive chemistry that developed between government and business – chemistry that made it possible for the team to present such a solid front. A day did not go by that politicians and business people didn't meet face to face – whether at breakfasts, luncheons, signing ceremonies or workshops.

For the first time, the Prime Minister hosted a Team Canada Forum in all three countries, during which political leaders, including Minister for International Trade Al Eggleton and Secretary of State (Asia-Pacific) Raymond Chan, met with company representatives to discuss issues related to the mission. Similarly, provincial premiers held two breakfast meetings at the start and end of the trip, with business people from their respective provinces.

Networking our way to the other side of the world

What is important is relative relations," says Hugh O'Donnell, managing director, geomatics at SHL Systemhouse in Ottawa. "You've got to develop these relations, and then the opportunities will come. There's nothing that replaces face-to-face meetings."

This year, business delegates were given many opportunities for these face-to-face meetings with their foreign counterparts. From the large business



The Prime Minister, premiers, Minister for International Trade and Secretary of State (Asia-Pacific) at the business forum during the Team Canada 1997 mission to Korea.

forums that brought hundreds together to the small networking meetings and receptions, this interaction contributed greatly to creating a teamwork environment. To the participants, this was one of Team Canada 1997's most rewarding achievements.

Kitchener mayor Richard Christy grasped the full impact of such relations in this market. "While Canadians like to argue, compete and get on with it," he says, Asians like people like to develop personal relationships based on trust and loyalty. And these relationships begin with an introduction through a third party, an intermediary role Christy played for several local companies.

To Trevor Hewison, director of Shantle Craft Comets of Saskatoon, the Team Canada concept is vital in establishing these links. Trying to penetrate a new market is very difficult, he says, especially when the two cultures are so different. "What would you eat? We wouldn't have an idea."

Even industry giants such as Hydro-Québec admit that the rules are different and that they require new approaches. "Acting alone, we normally would have our chance in twenty to complete a deal," says president and CEO André Gaudreault. "But by extending with an Asian partner, our chances grow to one in five."

Canada - Europe Canada

CANADA - PHILIPPINES BUSINESS FORUM
JANUARY 15, 1997
FORUM DES AFFAIRES CANADA - PHILIPPINES
LE 15 JANVIER 1997

Orion 2000 Technologies Inc. (Vancouver) signed agreements totalling \$45 million. Pictured here are Guyse Matic, president of SLM Software Inc., the developer of the ATM Banking Switch; Edgar L. Gantes, chairman of Orion 2000; Orlando Palio and Carlos Torre, representatives of the Association of Development Financing Institutions in Asia and the Pacific.

Navigating the way for smoother sailing

Korean business people want to see Canadian government involvement before they commit to any deals, says Te Bi Lee, president of TRL Microwave Technology Inc. of Burnaby. "Once they see the government involvement, they feel much more comfortable. It gives us a tremendous amount of credibility."

Official ceremonies that may be perceived by some as mere media photo opportunities are extremely important to the Korean hosts, explains Lee, who came to Canada from Korea in 1974. "What appears to be just a formality," he says, "in the end really seals the sale. A nicely packaged deal will make a difference."

Even veteran operators in this part of the world do not underestimate the effect of a Team Canada mission on local officials and business people. For many, their government's endorsement is essential.

International giant AGRA Inc., for instance, already does business in the three countries visited by the mission. But, as president and CEO Alex Taylor points out, "A lot of the clients we have...in fact, are governments or corporations that are owned and controlled and influenced by governments in those countries, and therefore, it's very good for us to be seen to have government support, because in those countries, they like dealing, as you say, government to government."

AGRA Inc., based in Oakville, has 35 offices in 22 countries around the world. On this trip, the company's subsidiary, AGRA-Monenco, signed a memorandum of understanding with Kadoh Engineering and Construction of Seoul to market its Asahit project management systems and services, following up on a previous \$2-million contract with Kadoh.

The Canadian government's action was also crucial to the success of MedcomSoft Inc. The small company from Wilkesdale is leading a consortium, including Excellence Corp. of Milton and Healthcare Technologies of North Bay, that is providing hardware, software and training so that almost 2,000 Filipino hospitals can put medical records on-line. The first leg of the project is worth an estimated \$31 million, while the second could top \$200 million.

"The Team Canada mission accelerated immensely our work to enter [our] joint venture working relationship...to real projects," says MedcomSoft Inc. president and CEO Dr. Sandi Aita. More than that, he can see a beneficial ripple effect in this part of the world. "The government support will attract other governments to work with us."

Government support also had the undeniable benefit of building a shortcut to profits and success. Getting through red tape is a frustrating enough challenge domestically; doing so on the international scene, especially in the emerging markets of Asia, gives business and professional people an incredible edge over the competition.

Even a solidly established company like SPAR Aerospace Ltd., a firm with unsatiable credentials throughout the world, recognises the importance of government involvement. Negotiations on its \$155-million contract with the National Research Council of Thailand to construct a remote-sensing satellite system were held up until intervention by Prime Minister Chrétien, at the request of SPAR, clinched the deal.

"It's a very significant event for our company," SPAR president and CEO Colin Watson says. "I thought the deal was founders. [Ex-Prime Minister Chrétien] broke the logjam."

Watson says the deal will provide 40 to 50 "very highly skilled jobs" at his Ste-Agnès-de-Bellevue plant.

Education: a new partner on board

One of the most interesting aspects of the Team Canada 1997 mission was the induction, for the first time, of a large delegation from the education field, one of the eight key sectors of the Canadian economy highlighted on this trip.

Sixteen university or college presidents and deans took part in the mission, which attracted some 40 people from the education sector in all.

We may not see education as a business venture, but dollars and cents are just as important to maintaining the high level of excellence of Canadian institutions as are a good curriculum and a competent teaching corps.

What does this have to do with a trade trip to the Asia-Pacific region? A great deal, especially for universities and colleges. Over the last four years, foreign student enrollment in the country's universities has dropped by a dramatic 18 per cent, depriving the institutions of tuition fees from foreign students that can top \$15,000 a year, and threatening graduate programs in engineering and mathematics — programs that traditionally rely on Asian participation, and that Canada's high-technology industry banks on.

University officials believe that the erosion in foreign enrolment is due to a combination of aggressive marketing strategies from universities in other countries such as Australia, the United States and the United Kingdom and, conversely, ineffective marketing on the part of Canadians.⁹



1. Bernard Pequin (second from right), president of S.M. Group International Inc., of Montreal, signs a \$50-million memorandum of understanding with the City of Manila, the Philippines, to develop infrastructure projects in waste treatment and water distribution.

2. Bill Kerckhoff (shown third from left, at a show-house site in Busan, Korea), president of Canadian Homes International Inc., (Chilliwack), signed two letters of intent in Korea to develop a senior citizens' complex and to construct a wood and timber church. The two agreements will generate revenues of \$11.5 million.

3. Alex Information Inc. (Vancouver) signed an agreement to sell to supply LibraTM media server systems to equip Korean schools with state-of-the-art multimedia learning centres. Total orders are valued at more than \$2.5 million.

"We haven't developed a coherent articulate strategy for marketing ourselves abroad; we've lost market to a fault," Garth University professor Mandrecha Bernards was quoted as saying in *The (Sherbrooke) Record* before embarking on the Team Canada plane. The trade mission was a painful way to try to reverse this troubling trend.

Public school boards across Canada are also pressuring foreign student enrolment. Educators such as Superintendent of Schools Emery Deschêne of Edmonton hope the Asian trip will help generate a few million dollars in revenue.

Steven Kelley, chairman of the Nova Scotia Community College Board of Governors, agrees that

the marketing and selling of education is the main avenue for universities and colleges to generate funds in the face of cuts. He is also convinced that Canada must push ahead with this unique kind of trade. "Many other countries have been doing this for a long time. We're behind the eight ball."

Jobs: the real bottom line

Whether it's in Asia or Canada, business networking and marketing lead to one all-important point: the bottom line. That, of course, is profit for those Canadians who take the plunge. But for all Canadians, the real bottom line is the jobs generated by those profits.

As Peter Caputo, chairman of the board of Val-d'Or's Quebec (1994) Boxes Inc., explains, "When we sell boxes on the foreign market, we have to buy wood, carpet, hardware and napkins [in the Canadian market]. It creates jobs directly and indirectly."

The success of a small Abbotsford firm in Asia is a powerful testament to the future that building companies have in this area of the globe if they take advantage of the opportunities. Walter Poese, president of Quesnel Log Homes Ltd., signed a \$6.39-million deal to build log cabins in the Philippines.

The agreement means Poese will quadruple his company's production and hire 30 to 40 employees. He was planning to begin hiring two weeks after his return to Canada.

Another small, 18-employee company in B.C., this one competing in the high-technology sector, was one of the big winners of the Team Canada trip. Orvis 2000 Technologies Ltd. of Richmond signed deals in each country: a \$65-million agreement with two Philippines development banks; an estimated \$10-million memorandum of understanding with the Korea Technology Bank; and a \$12-million MOU with the Industrial Finance Corporation of Thailand.¹²

Services of the Ottawa-based International Business Opportunities Centre, trade commissioners connect exporters with prospective buyers. They can also identify the right government programs to help exporters succeed, such as the Program for Export Market Development. PEMD helps increase export sales of Canadian goods and services by sharing the costs of activities that companies normally could not or would not undertake alone, thereby reducing the risks involved in entering a foreign market.

And trade commissioners play a major role in the organization and eventual success of Team Canada missions.

If you are already exporting and are looking to expand to new markets, you can also contact one of the 31 Business Trade Centres (BTCs) throughout Canada. These centres provide valuable information on international markets, partnerships and alliances, opportunities for technology transfers, trade fairs and missions, as well as conferences and seminars. But, most important of all, your direct link to the Trade Commissioner Service — your gateway to export markets.

Find Team Canada partners offer even more

The Team Canada Market Research Centre produces a full range of product and country market reports for Canadian exporters. These reports contain information on the demand for products, competitive environment and channels of distribution in markets around the world. They also provide information on purchasing prospects, key contacts and promotional venues.

Across Canada, Information Fairs feature exhibits from over 20 federal agencies and departments that support small businesses, including exporters, through programs, services and partnerships. Team Canada officials are also on hand to demonstrate their programs and services and to direct participants to appropriate sources of information.

If you have access to the Internet, plug into the Department of Foreign Affairs and International Trade's web site at

<http://www.diaidexport.gov.ca>
or Industry Canada's Strategic site at
<http://strategic.ic.gc.ca>
to get information on global business opportunities, events and services.

To connect with the Canada Business Services Centres against you

To obtain information about Info-Fairs across Canada

To obtain a copy of Your Guide to Government of Canada Services and Support for Small Business, or the Guide to Export Services



To register in Wis Exports or to obtain information about the Program for Export Market Development

To learn how to gain access to the full spectrum of information and intelligence as exporting, from getting started to arranging financing and distribution to doing the deal

1-800-333-9999
4-8 a.m. - 8 p.m. EST
Monday - Friday (except holidays)



There has never been a better time for Canadians to establish or enhance small businesses and to gear up for export markets. Abundant opportunity in the global marketplace, decreasing trade restrictions, the globalization of markets, and improved road and communications infrastructure make exporting an increasingly viable choice for both large, multinational corporations and small and medium-sized companies. In today's global business environment, taking advantage of export opportunities is one of the best ways for your company to grow and prosper.

Exporting can bring significant benefits — expansion or diversification of your business, more jobs and increased profits. It can also place demands on companies that they may or may not be prepared to meet. Whether you are new to exporting and need information on how to get started, or you are an experienced exporter looking for business leads, Team Canada services can help you succeed.

Team Canada: more than meets the eye

Team Canada is more than just trade missions. It is a major component of the federal government's Jobs Strategy and a concerted effort on the part of all levels of government — federal, provincial, municipal — and the private sector, working in partnership to help Canadian companies prepare to enter and succeed in foreign markets.

Participation in Team Canada missions has helped hundreds of Canadian businesses make major inroads in world markets. But you don't have to go on a mission to benefit from Team Canada's expertise and services.

Connecting with market opportunities

Once you are export ready, the next step is to register your company on the World Information Network for Exports. WIN Exports is used by the Trade Commissioner Service's worldwide network of trade experts to match your company's products and services with the needs of foreign buyers.

Think of the Trade Commissioner Service as your advance global marketing team: a network of more than 400 specialized offices in 120 embassies, high commissions and consulates in all of the world's major markets. Using such tools as WIN Exports and the



Jack Kroeker, of Whiting Equipment Ltd., Mississauga, has no doubt that trade initiatives of this kind help open doors for small and medium-sized companies. "Without missions of this nature, it could take two to three years to make these contacts," he says.

Company president Karim Lakhdari estimates that once sales start coming in, "probably over as many jobs will be created locally as are created overseas." All of Osmar's partners should also see job increases, Lakhdari explains, because "a whole network of services is required."

Where to fly from here?

The list of contracts, totalling more than \$2 billion, goes on, as do the numbers of jobs created. But, as the testimonials show, there is a lot more to a Team Canada mission than can be seen on pieces of paper.

It's no secret to anyone in business that one of the best ways to survive and prosper is to take advantage of opportunities that are emerging every day, not only at home but around the world. In the face of a small domestic market, it makes good economic sense for Canadians to sell their goods and services in other parts of the world. Those who were part of Team Canada 1997 know this. It's why they joined. It's a big part of why the mission was a success.

But the trade mission's success has another side, one less obvious. It says to Canadian businesses, whether they are large conglomerates or small firms, that they can share in the benefits of exporting.

The plane from this particular mission may have landed, but Team Canada will continue to work behind the scenes to ensure that Canadians benefit from these missions. A network of alumni mission participants will be created, the database of eligible companies will be expanded, and this year's participants will be asked for their feedback on the mission. All this in the interest of building on the success of previous missions and ensuring the success not only of future missions, but of all the exporting activities spawned by these missions, and the resulting economic benefits.

More than anything, Team Canada missions introduce Canadians to their counterparts around the world and to each other. One of the most intangible, yet powerful, effects of such endeavours is the confirmation of what we can achieve when we work together.

Team Canada • Équipe Canada

World NOTES

WHITEWATER WAFFLE

Kenneth Starr, the U.S. special prosecutor investigating the Whitewater episode and other scandals involving President Bill Clinton and his wife, ended four days of testimony by announcing he would stay in his job. Earlier, he had surprised Washington by saying he would take up a university position on Aug. 1—prompting White House officials to suggest that there would be no indictments brought against the Clintons. Starr now says he will stay on until the investigation "and any resulting prosecutions" are substantially complete.

MATTEL AT LAST

The Bulgarian city council elected opposition leader Zora Bytcheva as mayor, settling the stage for a new level of confrontation with Socialist President, Slobodan Milosevic. Syndic helped lead street protests that forced Milosevic to postpone elections to postpone local election victories. The council immediately invited to inform state-owned local television, which it controls.

ANGER IN ALBANIA

Albertan President Bob Rae found the country to try to calm citizens angry over losing their savings in bank accounts pyramid schemes worth up to \$3.7 billion. He dismissed demands for his resignation after five weeks of often violent protests in Tirana, not police fired shots in the air after protesters hurled stones at them.

COOKIE THREAT

The giant Australian biscuit firm Arnott's Ltd. removed millions of packages of cookies from supermarket shelves and destroyed them after an extremist threatened to poison Arnott's products. The unnamed extremist was campaigning for the release of convicted murderer Ross Thomas, who claims he is innocent. But Thomas claimed involvement and called on the extremist to stop.

MURDER CHARGE

In a front-page headline, Britain's Daily Mail reported accused five white men of being "mafiots," although authorities had failed to connect them to the 1993 killing of a black youth. The newspaper claimed legal experts by declining, "If we're wrong, let there see us." The government investigated whether to lay contempt charges.



A shamed-down Kostunica meets Al Gore, frosty reception

Albright pushes NATO expansion

Western critics say no. For what isn't broken and the Russians simply hate the proposal. But new US Secretary of State Madeleine Albright is determined to push ahead with adding new members to NATO from the former Soviet bloc. Albright took her pitch to European capitals last week and convinced her 15 NATO allies to issue invitations to new members at a NATO summit.

TRADE

Washington won't play

The United States said it would oppose a World Trade Organization proposal to expand rules to cover 110 U.S. Helms-Burton Act, which seeks to penalize foreign companies doing business with Cuba. "We will not show up," a senior U.S. official said. The European Union asked for this point, contending that the new countries WTO policies in trying to restrict trade with Cuba by third countries. But Washington, which has maintained a trade embargo against the Communist re-

gime since 1962, argued that the Helms-Burton law is an issue of national security, exempt from WTO proceedings. Many observers fear that the selective approach of the world's broadest trading nation, which has used the WTO to challenge Canadian cultural policies, could set a bad example for the newly-created body.

Mexico's drug chief arrested

Mexico's top drug drug chief was arrested after he was reported to have close connections with the boss of the country's most powerful cocaine cartel. The scandal caused embarrassment from Mexico City to Washington. Army Gen Jesus Gutierrez Rebello had been chosen to head the national drug program only two months earlier by President Ernesto Zedillo,

who has declared drugs Mexico's number 1 national security threat. Rebello was praised recently by White House drug policy director Barry McCaffrey as "a guy of absolute unquestioned integrity" and was given sensitive facilities that officials now fear may have endangered U.S. interests. Moreover, President Bill Clinton is due this week to certify to Mexican authorities that Rebello moved into a stately apartment provided by the cartel.

planned for Madrid in July. "This journey of enlargement is helping to bring Europe together," said during a stopover in London. "And it is a process that must be kept."

First in line for membership is a club whose privileges would include the guarantee of America's nuclear deterrents. Hungary, Poland and the Czech Republic. And even staunch Russian allies like Bulgaria are now clamoring to join. Last week, Prime Minister Jan Cremers added support for Romania, Slovenia and Slovakia.

But Albright got a cool reception in Moscow, where the US-NATO expansion close to Russia's borders is seen as a threat. Officials have long wondered why it is necessary in the post-Cold War era. The Russians now seem resigned to expansion going ahead, but they want a binding treaty that gives Moscow same say over NATO's activities, such as banning all nuclear weapons from the territory of new members. Albright wants the negotiations wrapped up quickly, to allow the new members to join by 1999. But after meeting a decidedly slavish President Boris Yeltsin, who is recovering from pneumonia, she said it was too soon to say when a deal could be reached by July.

And since 1992, argues that the Helms-Burton law is an issue of national security, exempt from WTO proceedings. Many observers fear that the selective approach of the world's broadest trading nation, which has used the WTO to challenge Canadian cultural policies, could set a bad example for the newly-created body.

GREED, GRAFT, GOLD

Canadians find treasure in one of the world's most corrupt countries

BY JENNIFER WELLS

The car pulls out of Soekarno Hatta airport and heads towards downtown Jakarta. The management of the airport itself is contracted to companies owned by two of the offspring of President Suharto, who has ruled Indonesia for more than 30 years. As the car makes its way towards the city it travels along a road built by a construction company controlled by Suharto's eldest daughter, Titi. It passes through Titi's toll booth then proceeds towards the seven towering slum-gangster-cum-project, a monstrous contraption tribute to Suharto's wife, Madam Tien. Along the way, the driver overtakes a couple of Toyota sedans, the "national car" for which Suharto's assassination, Tomy was the manufacturing contractor, hosting his own brother, Barrick. Having been relieved of all his obligations on the Koresbali mines, Tomy can sell them for half of what the concession had charge. This is how the Suhartos make a market. Along a muddy road, men fish for handbags. It is a mere scene of commercial simplicity amidst that remarkable tableau of decadence, greed and graft. Welcome to Indonesia.

John Felderhof is passing like a panther. Based in a place he does not want to be. Hemmed by people he does not like. He is a grumpy pain, his skin approximating the color of the smoke that rises from his Marlboro cigarette. Outside the Jakarta air hangs at 30°C. The scenery is elusive, Kolachromatic. Inside, the cockpit is tight, the heating is poor and everything has the pallor of grey plasticine. That



COVER



Karang project base camp; Mohan (left) in Amsel's lake of embarrassing riches

could be the office of a young exploration enterprise in any old mining town. Tatami, Ont. Sudbury, Ont. Aerial maps pinned on walls. Maps of drilling progress, too.

The fax machine keeps spitting out paper, the phone keeps ringing, and Felderhof cannot quite figure which he should attend to first. He slips his hand into a box of Dutch knegges (he loves to eat). He names: It is Pradiq Pertiwi, 14, and Filderhof, senior vice-president of exploration, and his corporate peers from Brix-X Minerals Ltd. are casting right to the wire. They have just 72 hours to sign an agreement on the ownership and operation of the gold field called Busing, scrabbling to meet yet another deadline imposed by the Indonesian government. These have been so many deadlines before; they have all drifted away but Filderhof says this one is real. Two days previously, Barrick Gold Corp. of Toronto—for months the leading contender in the Busing stakes—was shot down by Mohamad (Mok) Hasan, the timber tycoon and Suharto confidant who had wedged his way into the Busing story not just as a participant, but rather as the deal-maker. It was Hasan that Barrick came in and made Indonesia look like a Third World country, Felderhof says of Hasan.

Hasan may indeed be a great patriot, but surely what was apparent in his mind was, "What's in it for Bob?" Hasan had recently acquired control of a company called PT Antamindo, which has 100 per cent of the project called Busing II—which happens to contain the great majority of the gold. Hasan, however, wanted more than 100 per cent of the winging-in partner with Barrick. Busing had become a political football. Pressure was mounting to find an Indonesian solution to the battle for Busing—to give Indonesian interests a majority. Felderhof said no. "Everything else is negotiable, but you can't negotiate who controls 100 per cent of the magnitude," says



Barrick CEO Peter Munk, Barrick's last proposal was part of a bid by Munk's last-time confidante that failed. It and the others in local circles, including Brix-X, think, says Mohan, was selling off a number of concessions, from cash to royalty streams. But not control. That, he says, was why he and his Indian son government, "I didn't know Hasan was to become the kingpin," Munk says. "I thought the finance and energy business was easier to do that."

For \$12, the same day Barrick was shot down, Hasan notified Brix-X that they would be moving fast, enlisting with Jim Bob Miller, the Texan who runs Proprietary-McBride Copper & Gold Inc. of New Orleans. There is precious little time for Filderhof to assess how palatable this latest development is. Parts of the proposal see mighty jones, for there is Busing with not 100 per cent, but 50. Not only does he get to triple his share, but Hasan does not have to pay up for his increased stake.

For weeks, Jakarta has been a hotbed of deal-makers. Each group has its own base camp. The team from Brix-X and one from Vancouver's Player Tone Inc. are staked out at the Shangri-La, the kind of hotel that has the sort of illicit romance about it. Ten minutes away by Shady Side taxi is the Grand Hyatt—the Barrick hotel, as everyone calls it. The Hyatt seals of commerce and power and has very hard edges. A delirious Brix-X checked out on the

morning of Feb. 14 Barrick was supposed to arrive in a day's time. But he flew in early, to give Busing's last shot. Now, all the Barrick birds have flown, except for Al Loo Loo, a 100,000-ton public relations man and press aide to former prime minister Brian Mulroney, a member of Barrick's board of directors.

Back at the Shuang-Li Bre-X chief financial officer Kelly Francesco has checked out, overwhelmed by the demands on his time. He moves to the Regent under an assumed name. The Regent is an ugly hotel, but it has a nice business floor, where Houston-based lawyer Tom Amenter has sat for just about every day of the past seven weeks, trying to unravel the twisted tale of Busing for the benefit of disgruntled Bre-X shareholders.

Busing. Once the name of a spot of a creek running through a leveled jungle, now the footstool of a Canadian gold exploration company from Calgary called Bre-X Minerals Ltd. that has an embarrassingly rich gold mine on Busing's behalf in the Indonesian province of East Kalimantan. It was Fellerhoff who led the charge into Kalimantan, a canard geologist methodically searching the jungle for the proverbial pebbles, finding a finally and the elusive Mother Lode. When the Dutch heard that it was a long way from Nusa Sutra, to which Fellerhoff moved from Holland at the age of 22, his father, a doctor, and Fellerhoff thought he would become one, too. Then he changed his mind. "I didn't want to look at miserable rocks, so I became a geologist," says Fellerhoff, smiling.

Fellerhoff has had malaria 11 times. He has lost a dozen workdays to bilharzia, amoebas, hookworms and bush fires. The tour claims many sacrifices. But for Fellerhoff, it is almost a mystical ritual. Some who have not been say he thinks he can walk on water. What he does not know is the hole he has been living for the past seven months. It may be to hold on to half of his find, which at last count was reported to contain a minimum of 70 million ounces of gold, or, what, Fellerhoff suggests, will likely be 200 million ounces. Two, four, five, maybe even ten million ounces will be found, but the tour claims many sacrifices.

Busing annually there has never been an Ed Toronto like this. Never has a single gold mine panned so rich. For a while, it looked like a goldmine. Then, it became a curse. Says Fellerhoff: "We found something so big."

Two days have passed, and a very different Fellerhoff is limbering past the sunlit pool at the Shuang-Li, past the little bridge, into the garden, where the breton runs high. Walking from a meager walk-in from the distance as Fellerhoff pulls from his belt, drags from his cigarette. He is a man now refined, but not without his appetites.

Bre-X announced this morning the basis of a corporate ownership update for what is known as Busang I and Busang II. Bre-X will be allowed to keep 10 per cent, half its previous stake. Its Indonesian partners (the Bob Haseis) will take 30 per cent. Freeport gets 15 per cent. And the Indonesian government gets 50 per cent. Bre-X sharehold erate it. The stock lists. Dissident shareholder Gregory Cheung of Aurora, Ont.,



Mark (left), Mulroney and Bush at a Barrick mine in Elba, Nev., last year, the world's second-largest gold producer with a powerful international advisory board.



"generation" of COW covering new mining applications.

Rachman designed the fifth generation of COWs, incorporating a requirement for community development and environmental responsibility. At the time, Freeport was moving towards the development of a titanium mining project, called Grasberg, on the Indonesian island of Irian Jaya. It is with some pride that Rachman says it took Freeport 20 years to get COW status on the property, and that the company had to post a \$1-million bond.

Rachman says the barriers to entry are supposed to be high. When they are not, Indonesians get burned. As it did in the mid-1980s, when there was a great gold rush and junior mining companies, particularly Australian ones, were changing in. Sixty per cent of those COW applications were subsequently terminated. As the Indonesians saw it, the Australians were simply using the Indonesian tax-exemption plays to sell their shares, from which they would pocket the profits. They were "irresponsible investments" with "rubbish technology," says Rachman. "Now the Canadians are copying us. It's a repetition of history. It's not really a gold rush. It's rather a stock market rush."

The COW process has won the respect of the international mining industry, which has been running a nickel mine in Sulawesi for 20 years. This had no difficulty operating under the COW laws in a report he wrote a decade ago on Indonesia's deposit prospects, Fellerhoff and the idea of the contract of work ("cilected"). For the Irian Jaya campaign, it provides a guarantee that if economic mineral resources are found, the Indonesian government guarantees title to the deposit, fair haulage rates, permits export of profit and many other conditions that, when known, reduce the variables that determine the attractiveness of investment." As Rachman puts it, "Certainly a beauty of the contract of work."

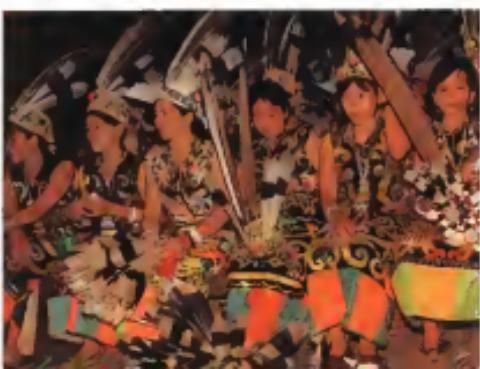
The problem for Bre-X is that it did not have—and still does not have—contracts of work for Busang II, the mother lode, and Busang III, where the company has yet to do any drilling. It does have a simple oral contract of work on a block of property in which it is partnered with a local businessman Jusuf Merah, through a company called PT Waskita Anak Minera. It was there that Bre-X's geologists first started to get exciting drilling results, in 1993. But as following the run of the mineral, they stepped beyond the bounds of this piece of property, running their drill lines to the southeast. A new corporate alliance was formed to cover the new property, one from which Merah was excluded.

Bre-X argued for its contract of work, in the interim, explained the property under a so-called SIPP: a permanent exploration permit that is meant to be a proper title active while they await COW approval. A SIPP, however, provides for minimal work, trenching, auguring. Deep drilling, which is what Bre-X was doing, is prohibited. Technically, that is. But Jusuf Sippeh, the director in charge of permission at the ministry today, says that "in a certain way, to be honest, it's good for us that they are very aggressive in doing exploration, because when the contract is signed, in a few years they'll be ready to start production."

Bre-X's argument was its weakness, too, for as the Indonesian drill results proved the richness of Busang—and as those results were reported, as required by Canadian securities law, to shareholders and regulators—Busang II started to look terribly tantalizing to Michael On June 25, 1995, Merah wrote a letter of complaint to Rantoro Mangkubroto, director general of the mines department, saying

COVER

Dayak miners in traditional dress: a tribe yet where the jungle once grew



publicly dictated the outcome of the two companies.

Thereafter, the Bre-X people, says Fellerhoff, were "persuaded on a bunch of analyses," a couple of others said a coherent biography. Fellerhoff's own academically dense work as the protégé of Klemenski puts a lie to the former. But that never got much media play. Through the bidding, the focus was often on Bre-X and its violations of Indonesian mining law. Given that Bre-X did not "own" anything, critics said, the company had no right to squat. But Bre-X did acquire. And so did its shareholders. Fellerhoff says that Barrick tried to pre-empt the process and said that its tactics were tantamount to expropriation. "The Indonesian government owns the resource," counters Merah. "Who else should decide who should be the steward of this resource?"

Rachman Wirakusumarno is admiring an orchid in a neighbor's garden, a particularly beautiful bloom. He is dressed in shorts, padding in bare feet, ready for picking a few leaves, perhaps like many businesses in Indonesia, Rachman works out of his home.

He used to work for Indonesia's state-owned company before he found himself developing policy at the ministry of energy. Now, he is a consultant to the mining industry, and he knows as well as anyone how that industry works.

He takes from his bookshelf two hefty volumes. "In Christianity, you have the Bible. In Islam you have a Koran. In Indonesia, we have this report." The report dates to 1948, the work of a Dutch geologist named Arnold Willem van Beurden, when Islam was still called Batavia, and when the country was still ruled by the Dutch. "An European mining industry might be possible for some deposits," van Beurden wrote. "Bre-X does not seem to be a promising goldmining country, but surprises are not impossible."

The Dutch were moderately successful miners in Indonesia. After then-President Soekarno won independence for Indonesia in 1945, the mines were nationalized and a company for another oil, a third, PT. Bina Graha Tirtadwi, for other minerals, including gold. But Tirtadwi had some success. In 1966—when there was still blood running in the streets from the political clash that allowed Soekarno to seize power—Freeport McMoran Copper & Gold arrived in, giving Indonesia its first major foreign investment in mining. There was no framework for foreign miners, so, as a "contract of work" was drawn up, granting mining leases for a period of 20 years after production startup at Freeport's copper mine, called Bisriberg. In the decades since, the contracts of work have been refined, each gen-

Indonesians accused Barrick of 'cowboys'

that he had been wrongfully left out of the new partnership. Although Santosa now believes there is no intent to Meraksa's claim, he took it seriously at first. On Aug. 15, he exceeded the SIIIP permit, sent a letter to Bre-X informing it of the cancellation and insisting the company to request return of the SIIIP land, on the order of \$180,000, facts that Bre-X failed to disclose to its shareholders.

Santosa's director did not have the desired effect of shutting Bre-X down. Instead, the company continued drilling under the contract license with local partner PT Adikomodo Agro. Bre-X was increasingly out of local only comprises subcontracted by the local partner could search work. Bre-X, being the senior partner, did not qualify.

Santosa assigned his people to investigate the Meraksa complaint. But through the fall of 1996, there was a not-so-subtle shift in authority. On Oct. 17, Ida Bagus Sudjana, the country's minister of mines and energy, issued decree number 2090, canceling Santosa's authority to do business, and halting that rule instead, he is ministry's secretary general, Umar Said.

There are a number of places where the Busang story went off the rails, but perhaps none is as significant as Oct. 17. For while Santosa is respected as a straight shooter who well understands the permitting process, Sudjana fails far short of the mark. In his hands, the battle for Busang became a platform for strict theory and misinformation. It was in October that the government made sure Bre-X understood that it expected to get 10 per cent of Busang for itself, grants and that it intended to keep a close watch on the file.

At the corporate cornerstone that in name is fully sock-eyed for position Bre-X's Fletcher says that his company sought a partnership with Sigit Harjopradmo, eldest son of Suharto because Barrick had already connected to the Suharto power base through daughter Tutut and her construction company. The arrangement with Sigit was obvious, for one only was he to get 10 per cent of Busang, but a further \$1 million a month in consulting fees for 40 months. Barrick's arrangement with Tutut, by contrast, was opaque. At first, Barrick suggested that Tutut's firm would merely be rewarded with construction contracts tied to mine development. To

There has never been an El Dorado like this



that was, the Barrick men looked positively virginal when compared with Sigit's pact.

On Nov. 14, miners against Sudjana summarised the Bre-X men in his office. The Barrick people were already there, along with Tutut's lawyer, Madura Yoko, and the son of Suharto's boss with whom Barrick had formed an alliance. The forced marriage initially sounds like a 25-75 split the power to Barrick. But, of course, that neglects the government's demand for 10 per cent off the top. So Barrick was actually looking at 6.75 per cent to Bre-X's 22.5 per cent. Barrick proposed carrying a further 10 percent to Adikomodo. At which it was entitled. So that left Barrick with 37. Barrick chief financial officer Oliphant now says that FHR, a firm controlled by

► De Gouwne examining core sample; games still being played

Tutut, would have taken her own slice, presumably 10 per cent, had Barrick's proposal been accepted.

Barrick, of course, hoped for a speedy conclusion, a neat signing of documents before Christmas. It was not to be. As discussions stalled, local interest in the Busang strike grew and grew. Economic and political contamination were critical of the government for its interference, critical of Barrick for behaving like a stock promotion, critical of Barrick for its halts.

Barrick says Oliphant, simply had no appreciation of the business culture, of the understated Japanese style. He finds the company's "cowboyish" disastrous! He says he has never seen business behavior like Barrick's.

These are sensitive terms in Indonesia. Everyone is quick to say so. There is an election looming, for the lower house in the



► Sigitana, the minister answered one question and then abruptly left

spring, and the presidency next year. That, of course, will go to Suharto again, his sixth term. It has been 30 years of relative stability, and, statistically, the country has been transformed. There has been tremendous progress from poverty, from illiteracy.

But the rich have grown very, very rich. In downtown Jakarta, where after De Mauro came to open a Planet Hollywood restaurant, where Cindy Crawford and her sister models opened a fashion store, where the oil dealers cannot keep \$480,000 Mercedes-Benzes in stock, there is the sketch of big money. It is now the week of Id al-Adha, the Muslim New Year's celebration. Each year, a third of the capital's nine million inhabitants leave the city for celebrations outside Jakarta. Each year, when they return, they bring family members with them, another 300,000 new Jakarta residents. There is no more room. There is no air. They will sit up street stalls.

There is only one true power, and that is Suharto himself. The government's challenges on the Indonesian Democracy party last summer was a reminder of that, if anyone needed reminding. The repression and violence in East Timor, a former Portuguese colony that was invaded and annexed in 1975, left Indonesians on the international human rights agenda. There has recently been Bloody fighting in West Kalimantan between warring tribesmen. Two weeks ago, Malaysia closed all border there.

Suharto's development policies have, essentially, sprung first from the country's natural resources wealth. Oil, Tin, Copper and coal. It is from this, promised Suharto, that Indonesia—the 250 nationalities, its 180 million inhabitants on 6,000 islands—would be provided with economic growth.

Some people hold more equitable positions than others. Suharto's colleagues have worked as powerful agents of Suharto's entrepreneurial agenda, juggling the numbers on percentages of companies from oil to telecommunications. And then there's Blasius. A Java-born ethnic-Chinese who abandoned his given name, The Nian Seang, and converted to Islam, Blasius was adopted by Gao Gakot Blasius, maritime chief of staff to Suharto. Blasius had big fish interests in plywood, and ships in shipping, to ship the plywood, and insurance, to insure the shipping. Last week, he moved into the top spot of Astra, the country's largest carmaker. His hands Nusantara Angga or Nusantara, an investment company that represents not only his own interests, but those of the Suharto as well. It was through Nusantara that Blasius took control of Asiatech on January.

It was a brilliant chess play. Busang had moved too high on the political agenda, was too "eye-catching," as one observer puts it. Public opinion rose both to condemn the behind-the-scenes machinations of the Barrick-Bre-X partners, and to call for a higher percentage interest for Indonesia, a majority stake for Indonesians, and at the extreme, outright nationalisation. "From the beginning, I think there was a secret deal between Barrick and Bre-X and my environment," says Arwesto Basar, a political science professor. "The reason the deal was not made public is that some bureaucrats were playing a very corrupt game."

Art Arfaryan, managing director of the Econs Advisory Group in Indonesia, put out the call for a much higher Indonesian participation than 10 per cent. "The Indonesian government has the right to decide

► Mining for gold at Yercau possibly as much as 200 million ounces



THE ROAD TO BUSANG

May 6, 1993 Bre-X purchases control of the Busang gold project, believed to contain one million ounces of gold. CEO David Welsh says the company targeted Indonesia "by virtue of its geological setting, favorable investment climate and political stability."

Jan. 24, 1994 Prompted by new drilling results, Peter Munn's American Barrick Resources Ltd offers to buy a minority stake in Bre-X.

Feb. 11, 1994 Bre-X turns down the offer, saying it can do better.

June 26, 1995 Drill results show that the project's central zone, Busang 1, contains at least 2.3 million ounces of gold.

Jan. 15, 1996 Bre-X chief of exploration John Fletcher announces that "a resource of 30 million ounces can easily be attained."

March 24, 1996 Bre-X says that four applications for contracts of work—mining, pre-

mining—have been submitted by the Indonesian department of mines and energy. Welsh grants Indonesia's "accelerated and progressive" mining legislation.

August, 1996 Munk tries to gain control of Busang by forging an agreement with Suharto's eldest daughter, Tutut. Lakes Metal tells Bre-X that Indonesia has chosen Barrick as the favored partner to develop the site.

Aug. 15, 1996 Indonesian court cancels Bre-X's preliminary license, pending settlement of an ownership complaint lodged by Jakarta businessman Ajudi Meraksa.

August-September, 1996 Bre-X executives seek nearly 1.5 million shares before the public learns of the company's troubles in obtaining contracts of work.

Oct. 17, 1996 Mines Minister Ida Bagus Sudjana takes personal control of the mining site.

Oct. 26, 1996 In a desperate effort to buy favor, Bre-X agrees to give Suharto's oldest son, Sigit, 10 per cent of Busang and \$3 million a month in consulting fees for 40 months.

Nov. 26, 1996 Welsh announces that Indonesia has "given guidance to Bre-X to explore a joint venture between Bre-X and Barrick Gold Corp."

Jan. 14, 1997 Place Dome Inc. of Vancouver bids \$6.4 billion on for Bre-X. On the same day, Meraksa files a \$2-billion lawsuit in Canada against Bre-X, claiming the company used its information to discover the richest parts of Busang.

Jan. 15, 1997 Indonesian timber tycoon Bob Hasan acquires 50 per cent of Bre-X's junior partner on the richest section of Busang.

Feb. 17, 1997 Bre-X announces a new deal giving it 45 per cent of Busang. The rest is divided among Hasan, the Indonesian government and Frasport-McRaeon Copper & Gold Inc., a New Orleans-based mining company.

in the size of share ownership without allocating any funds," he said in *Indonesian*, a local daily. Last week, he reiterated that, according to the constitution, "the product that is in the ground is the right of the people." The 80 per cent that Bre-X says it owns is not true, Bre-X's right to explore and a guarantee to exploit the mine, he thinks that is the problem."

Hartog Wijaya Djajaji somehow manages to square up through the very narrow space in his office between his desk and his overfilled bookcase. Hartog has become one of the economic celebrities of Basang. CNN had been on air; NBC, too. Today, it's just SCTV—a local commercial broadcaster in Jakarta.

Hartog has a rare "shark capital" market in which he argues that

Indonesia should somehow step up an extra material capital gains tax on Bre-X shares. But Hartog is a serious economist, with a doctorate from Harvard and a long list of corporate clients who value his advice. Like many, he refers frequently to Indonesia's constitution that mineral resources must be used to the benefit of the people.

Hartog is one of the more moderate voices. Bre-X, he says, should have been free to sell its own partners. It is scathing of the western company that had stalled so long within. "Of course, Indonesian situation is very weak, and very greedy, and very corrupt," he says. "For politicians, it's always short term. If the foreign multinational companies bring cash, their eyes turn green, you know. They don't realize what they're doing. No repercussions on international capital markets."

But he is critical of Bre-X, too, as a high-flying stock play rather than a company that is in it for the long haul, which, he says, will do Indonesia no good. This is understandable. Indonesians do not share the Canadian experience, of the more honest ones struck by the prospectus that then gets taken over by an experienced mining company. "I don't want to see Indonesia be like Africa," he says. "The people are very poor. They have minerals, but they have nothing, but they have nothing to eat. Just look at the sack route, you know. I don't want that to happen to this country."

Benny Walsh sits when he hears of Hartog's comments. Walsh is a member of the Indonesian Mining Association, which sent a letter of complaint to the government over its handling of Basang. Sitting in his office in a suburban Jakarta business park, Walsh says, "Since the first day, we told the government that we are not in agreement with them when they tried to interfere. We told the government that's not the way of doing business."

The government, eventually, did get the message. Sort of. On Feb. 14, 1995, in the preliminary informed mines director general's memo that he was to prepare the government's statement on the results of Basang, he had three hours to do it. At 11:30 a.m., a well-heeled senior minister Suharto arrived at a conference room in the ministry of mines and energy. He moved to the side trapdoor to read Kordoro's statement. He took one question from the audience, then left. Secretary general Soed following his trial. In their absence, Kasiuso Hatta, charged to answer media queries. Yes, he said, Bre-X's contracts to work would now be processed. They could increase their geological blessing within days. "It was good news, that Bre-X found the gold," said a ministry official last week. "It was bad luck they found it before the COM was signed. If only it had happened the other way around, he says. Then there would not have been a problem. One will never know if that is true.

Hartog, he agrees, "does not give any impairment at all with regard to our country."



Federker: a brazen geologist caught red-handed for a pot of gold

would not damage Indonesia's reputation among foreign investors.

Last Wednesday morning, Bre-X's Walsh, Federker, Francon and their European advisers took a conference call with analysts. "Some [people] mistakenly thought that we owned 90 per cent of this venture," said Walsh dropping a small bomb right off the bat. "This was never the practical reality, nor was it ever the basis for the valuation of the Bre-X stock." The deal was a victory, he said. "Unbelievably, it did not think that the market understands the deal."

Bre-X shareholder Cherry says he has a very clear understanding of the deal. "There's a multi-billion-dollar hole going on here," he says. "I'm sick and fed up with my management." Cherry says that when he first heard of the corporate re-allocation on Basang, he "enjoyed" the first few hours-alleging the lack out of the deal. "Then, he turned his attention to Indonesia. They are picking our pockets," says Walsh's comment on the 90-per-cent stake held on Toncoco mine. Cherry was in his track at the time. He nearly cracked it up when he heard Walsh say those words. "I can show you dozens of news releases that say Bre-X had 90 per cent of this mine," says Cherry. "Dumb," he says of Walsh, "brought himself potentially a class-action suit for serious malfeasance."

The Bre-X annual report for 1995 is as clear as it goes. "The company, through foreign shareholders, entered into a joint agreement with PT Anakonda Karya Mineral, which enables the company to a 90-per-cent participating interest in a contract of work application," it says.

Now, Walsh was saying that was not true at all.

That was never true. This time last year, at the annual Prospectors and Developers Convention in Toronto, Walsh, Federker and general mkt Mike de Groot addressed a crowded ballroom in the Royal York Hotel. Such a story they had to tell! Of this great gold mine in a land far away. Federker tried to explain the geology of his find, a volcanic lake that hosts the gold. His Dutch accent still heavy, his delivery dry, Federker was less than inspirational. He said the mine contained 50 million ounces, "plus, plus,

plus." De Groot said he would not rule out 80 million. The background noise was that the mine really had 200 million ounces. Now, Federker suggests it will have twice that, so shareholders should not feel badly. In that scenario, their 80-per-cent interest is equivalent to 90 million ounces. That is three times the size of the average gold mine. Cherry sees it the other way around. That shareholders have lost 90 million ounces.

John Wilson is the CEO at Placer Dome Inc. who badly wanted Bre-X, sighs deeply. "Today, we're all a good deal wiser," he says. For a time, it really did appear as though the battle for Bre-X would be opened up. "Then, all of a sudden, it has disappeared again." He is surprised at the resolution. Peter's sources had said Freeport was not interested in a project of this magnitude. But then, "I would not have thought you could buy for a small amount of money absolute operating rights." There is huge disappointment, "it is," he says, "a great, great gold mine."

Bre-X CEO Monk takes a different tack. "I tell you, if I had a choice, I would much rather do three Arapagnas," he says of the billion-dollar Peruvian acquisition he made last year. "I built this company laying down some fundamental principles. We're not a passive investor. We are a mining house in gold. That requires that we run our own destiny. There is no control of my capital."

Monk says his people have now spent a year trying to take Basang. It is not the first time Barrick has failed. Failing to take over Denver-based Newmont Mining Corp. in 1991 was "a hellava setback." He will not be baited into a discussion on Barrick's Indonesian misadventures, the optics of the government's complicity in forcing Bre-X into Barrick's arms last fall. "Once, when I write

my books—and I intend to write a best-seller—I will reflect on it." Seven hours after the conference call with analysts, Federker was heading back to the bush—not in Basang, but to a Bre-X gold mining operation in the province of Aceh and on the island of Sulawesi. By June should move toward swiftness now. A full feasibility study. The plotting of the infrastructure. Bre-X is building homes for the local Dayak tribespeople, so that when the new roads go in, they won't cluster dwellings by the roadside. The company recently built a Catholic church—the Dayak are Christian—and will supply electricity and build a school.

One day, the Dayak will see a great pit where their jungle once grew. It will measure six kilometers by three kilometers, and from a Fremont, will pull more gold than has ever been pulled from a single mine. One might think there would be some satisfaction in this for Federker. But the real satisfaction, he says, was proving the validity of his geological theory, something "conceptually new."

Federker looks back on the past seven months of zig-zagging. On finding something that everyone wants a piece of. On mailing the possibility that another company might sign up and take Bre-X—assuming the terms of the joint venture leave that possibility open, which at this point is unclear. "Business is business," he says. "You do away with your passion."

But surely, if the Basang struggle teaches anything, it is that business is not just business at all. As Federker disappeared back to the bush, there were still games being played all around. The Bre-X players say they are being persecuted by unnamed interests set on closing down the company's share price. Controversies keep flaring up about the 90-per-cent ownership question, the issue of insider share sales last August and September, the issue of whether Bre-X is even free to have itself bought out. The only conclusion one can draw is that the story of Basang is a long way from over yet.

In a Chinese restaurant in downtown Jakarta, two gentlemen enjoy their after-dinner Discos,清淡的, the paper snapping as they inhale, the clove-scented tobacco oiling in the air. They believe that Bre-X has been more than a slob operator in Indonesia. The company has badly broken the sales, they say. They provide some traps, and a copy of the letter of complaint by Merlody. But they never give proof of their chief allegation that Bre-X is application for recognition of work was canceled.

It never comes clear how these men would have gained if Bre-X had been ousted from the property, which is what they maintain should have happened. It never comes clear whether they represented a specific corporate interest ready to move in once Basang should be opportunity arise. Their connections are clouded in mystery, either than being "high level" and "close to the Stevens."

In this, the story perfectly suits the mystery of Indonesia, the dourly meeting politest, the smell of money. Rachma Wirasandarmo says these is a Muslim expression, which, roughly translated, goes something like, "If you have an interest, you will find the truth." That could be the motto for the tale for Basang.



Examining Basang core samples: Abnormal drilling results may have sealed Bre-X's fate

\$21.35

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HEAVY METAL

Monthly closing price of shares in Bre-X Minerals Ltd.

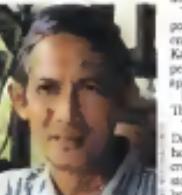
*Open prior to May 22nd, 1996. Data adjusted to reflect a 10-for-1 stock split in March 1997.

SOURCE: TORONTO STOCK EXCHANGE; ALASKA STOCK EXCHANGE

DATA: BRE-X MINERALS LTD.

CHART: MCGRAW-HILL

PHOTO: AP/WIDEWORLD



Hatta: "If you have an interest, you will find the truth."

The big money speaks

Why a campaign against CEO pay is sure to fail

He is balding and bespectacled, partly and more than a little stern. Yves Michaud certainly does not look like a prototypical working man. Michaud's crusade is shaping up as a David-and-Goliath fight between pension fund managers and mutual funds and other institutional investors—what collectively hold about 70 per cent of the Royal Bank's \$24-million shares—and a smaller group of individual investors such as Michaud himself. One individual investor, a retiree from east Nova Scotia who plans to vote for Michaud's proposals, says: "It's not a lever left, it's not a Luther and I'm not a Constantine, but I think salaries of two, three and four million dollars a year are just a little bit excessive."

Even Michaud concedes that his salary

Unfortunately for Michaud, most of the big investors are on the bank's side. Michaud's crusade is shaping up as a Goliath-like fight between pension fund managers and mutual funds and other institutional investors—what collectively hold about 70 per cent of the Royal Bank's \$24-million shares—and a smaller group of individual investors such as Michaud himself. One individual investor, a retiree from east Nova Scotia who

plans to vote for Michaud's proposals, says: "It's not a lever left, it's not a Luther and I'm not a Constantine, but I think salaries of two, three and four million dollars a year are just a little bit excessive."

"That is not the new law ever of the country's largest pension fund." "We would vote with [bank] management on these proposals," says Heather Munro, spokesperson for equity for the \$4-billion Ontario Teachers' Pension Plan Board. "We think the bank is generally moving in the right direction." She says the Royal avoids conflicts of interest by ensuring that committees of independent directors deal with such issues as salaries for senior executives.



Michaud taking on the bank

proposal—that CEO compensation be capped at 30 times the average annual income of bank employees—will probably go down in flames. "The institutional [money managers] often earn more than the chief executives of banks—that's why they are afraid," he says. That after wagging an intense, one-man lobbying blitz, the former Parti Québécois activist remains hopeful that the pension funds will support at least one proposal dealing with the composition of the bank's boards of directors, that the posts of chairman and CEO be split to give the board more independence. Says Michaud: "I think we have a 50-per-cent chance."

That is not the new law ever of the country's largest pension fund. "We would vote with [bank] management on these proposals," says Heather Munro, spokesperson for equity for the \$4-billion Ontario Teachers' Pension Plan Board such as the Ontario Teachers and the giant *Caisse de dépôt et placement du Québec*—the largest public-sector pension and insurance fund in Canada, with \$66 billion in assets—have drawn up corporate governance standards that call for a clear line between CEO and chairman. But it is not a



GMERS pension funds endorse its \$2.57-million pay packet

hard and fast rule," says Kevin Dougherty, a spokesman for the cause. "We interpret it in a pragmatic way."

One fund that intends to stand by its

guidelines is the Ottawa Municipal Employees Retirement System, the country's third-largest pension fund. In negotiations with the Royal Bank, Tom Guay, GMERS senior vice-president of investments, says he is asking: "Can you give me some valid reason why I should vote against my own goodness?" But GMERS expects to vote against Michaud's other initiatives, Guay says.

But in rejecting Michaud's call to split the roles of CEO and chairman, institutional investors will in many cases be contravening their own guidelines. Pension funds such as the Ontario Teachers and the giant *Caisse de dépôt et placement du Québec*—the largest public-sector pension and insurance fund in Canada, with \$66 billion in assets—have drawn up corporate governance standards that call for a clear line between CEO and chairman. But it is not a

hard and fast rule," says Guay. "It's important to fight, and that is, in essence, what this is all about." By the looks of things, the little guy is in for a tough battle.

JOHN SCHOFIELD



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Deirdre McMurdy



The Bottom Line

Dealing with dictators

Two unrelated events got every statesman's finger in Canada wagging last week. The first was the death of China's Deng Xiaoping. The second was a deal between Bre-X Minerals of Calgary and U.S. mining giant Freeport-McMoRan, directly brokered by the Indonesian government.

Predictably, Deng's death led to rumination about his legacy and the future of the most populous nation in the world. But while Deng's record as an economic reformer was acknowledged in Canada, it was eclipsed by pronouncements on his poor record on human rights. Not that the massacre at Tiananmen Square did much more than briefly delay Canadian initiatives for trade with China.

In the case of Bre-X, the deal proposed by President Suharto and his advisors provoked cries for a global code on ethical corporate conduct. Meanwhile, on Bay Street, there was sleepy talk about withdrawing investment capital from Indonesia—at least until the next major gold strike.

Those critics were right—but for the wrong reason. Democracy and respect for human rights are not ultimately about morality and the righteous path to economic development. They are about making money in a stable sociopolitical climate. Financial markets, after all, hate surprises. And companies dealing with repressive and totalitarian regimes are far more likely to encounter nasty surprises ...

in the likelihood of an eventual smooth transition of power.

Cuba is another case in which platitudes disguise the real issue: early access to an emerging market. As in China, the Cuban government regards its trade with Cuba as high-priority humanism. Commerce is portrayed as the best means to help citizens of both countries towards prosperity, dignity and democracy. But the reality is that when 85-year-old dictator Fidel Castro leaves the scene, almost any outcome is possible. Canadian companies which are aggressively pursuing deals there now could face a backlash in the future.

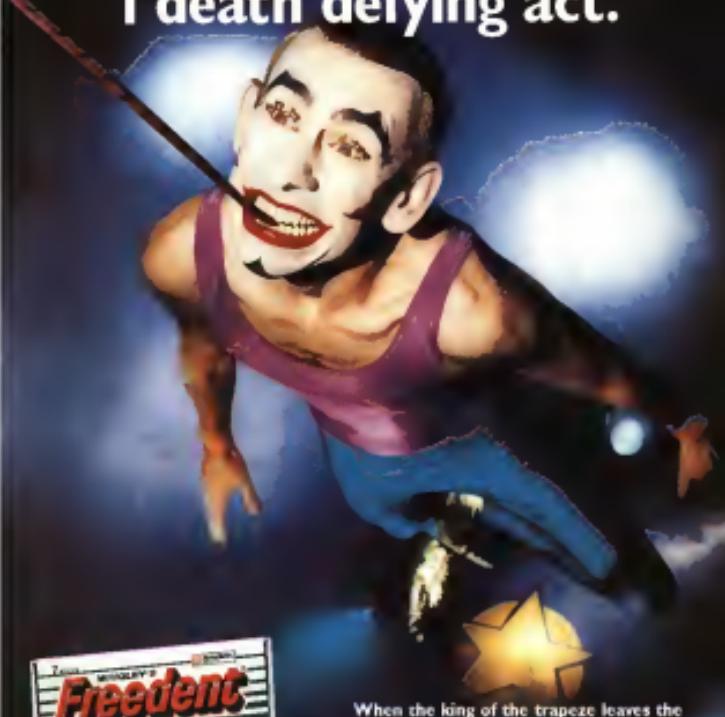
Democratic governments that abide by international standards and rules of law offer better environments for business. Elected leaders are accountable to voters and to the courts. Elections and public polls encourage political parties to tailor their platforms to popular opinion and the prevailing mood. That, in turn, gives businesses a reading on the environments in which they operate.

By contrast, in autocratic regimes like Suharto's Indonesia, it's almost impossible to predict the outcome of any initiative—even if local customs are observed. Bre-X gained the palm of one of Suharto's sons, but it chose one with limited influence and received little in return. Barrick Gold boasted the support of former world leaders, including George Bush and Brian Mulroney, but the double didn't endure. Last week, the Suharto regime blessed a deal between Bre-X and Freeport-McMoRan under duress.

Similarly, in China, Western investors have long complained about arbitrary changes in the terms of business agreements, often the absence of a commercial legal system. Not so coincidently, the Chinese government's blatant disregard for international trade rules

Global trade is here to stay. But when dealing with so many undemocratic regimes, Canadian business and government leaders would be well advised to drop the righteous rhetoric and watch their wallets.

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Business NOTES

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WAL-MART'S UNION WOES

Sixty per cent of the workers at the world's only unionized Wal-Mart store signed a petition demanding a new certification vote. The Ontario Labor Relations Board recently approved a union local organized by the United Steelworkers of America, saying management had intimidated workers at the Windsor, Ont., store into voting against the union last May.

GULF CLINCHER CLYDE

Gulf Canada Resources Ltd. of Calgary narrowly won control of British Columbia Petroleum PLC of British Columbia after a hostile, two-month takeover battle. Gulf captured \$1.42 per cent of CPC's outstanding shares with a sweetened \$1.1-billion offer.

CROSS-BORDER POWER

Ontario Hydro told U.S. energy regulators that it will allow U.S. electricity producers to compete in the province in return for a license to sell power throughout the United States. The U.S. Federal Energy Regulatory Commission is expected to rule on Hydro's licence application by March 31. E.G. Ratner and Hydro Quebec also want wider access to the U.S. market.

SURPLUS KEEPS GROWING

Canada's employment insurance fund will have an accumulated surplus of \$12 billion by the 1997-1998 fiscal year, said Treasury Board president Marcel Masse. The announcement relieved criticism from business groups that the current premium is a disguised "deficit reduction tax."

CADILLAC DUMPS MODEL

General Motors pulled its El Camino pickup supermodel. Only Crawford, senior female executive at GM complained it was sexist. Crawford, dressed in high boots and a short skirt, portrayed a bawdish princess in a commercial for the new Cadillac Celeno.

MANULIFE MILESTONE

Manulife Financial became the first Canadian insurer to earn more than half a billion dollars in profits in one year. Manulife's merger with North American Life helped propel the company to \$569 million in earnings. Its third straight year of record profits, Manulife is still struggling for control of Allianz Management Ltd., Canada's largest re-insured mutual fund company.

Bombardier takes flight

Bombardier Inc. just keeps flying higher. The Montreal-based transportation giant announced last week that it has lined up 87 orders, worth a combined \$2 billion, for the new stretched version of the successful Canadair Regional Jet. Bréa Aire, France's third-largest regional carrier, will inaugurate the 70-seat CRJ-700 when it starts taking delivery of four of the \$33-million aircraft in late 2000. Bréa already owns nine of the smaller 50-seat Canadair jets. "The exceptional operating economics of the Canadair Regional Jet have made it a valuable asset in our fleet," said Bréa Aire president Xavier Leclercq. Eight airlines, including Teljet's Great Canadian Airlines, have signed options or non-binding agreements to understand to buy the CRJ-700. In addition to the 67 places already spoken for, Atlanta-based Atlantic Southeast Airlines Inc. in January ordered 30 Regional



Leclercq, Brown and Peter Stu of Great Canadian success

Jets and took one option for another 60.

Sales of Bombardier's aircraft have taken off so rapidly that the company's share of the world market for regional jets has almost doubled in the past three years, to 42 per cent. Bombardier is determined to remain the "manufacturer of choice by regional airlines worldwide," said Robert Brown, the president of Bombardier Aerospace.

Unco-operative takeover

A \$172-million bid for one of Western Canada's oldest agricultural co-operatives goes against the grain, the grain's chief executive says. Brian Blairard, head of Winnipeg-based United Grain Growers Ltd. and the joint owner of Alberta Wheat Pool of Calgary and Manitoba Pool Elevators of Winnipeg, is too low, and he urged shareholders to reject it. The bid

FINANCIAL OUTLOOK

The annual inflation rate was unchanged at 2.2 per cent in January, reflecting hopes that the Bank of Canada will keep interest rates low. On a month-to-month basis, the consumer price index rose only 0.2 per cent over December. In the United States, inflation fell to three per cent in January from 3.3 per cent a month earlier.

Canadians shopped spent \$37 billion in the last two months of 1996, up 4.5 per cent. That, along with a 4.5 per cent move that during the 1995 Christmas season. Meanwhile, the country's trade surplus hit a record \$34.1 billion in 1996, up from \$28.4 billion in 1995.

"Excessive business downsizing in the 1990s might be raising productivity growth, allowing firms to produce more with less. The result (in the United States) is a general upward pressure on inflation despite strong demand."

—Bank of Montreal

INTERNATIONAL TRADE

Annual merchandise trade surplus

1995	\$34.1 billion
1996	\$28.4 billion

Source: Statistics Canada

"With an improving global economic environment and solid U.S. growth, the prospects for Canadian exports remain bright."

—Canada Trust



Peter C. Newman

The downfall of Jesus Christ Superstar

Canadian capitalism, which rules somewhere between piracy and alchemy, has produced few more fascinating specimens than Nelson Skalbania, a dimension in the rough whose gliter other (from) rated the West Coast sports and real estate scene. This week, the Vancouver entrepreneur who signed Wayne Gretzky to his first hockey contract, is to be sentenced in a Vancouver courtroom on charges of fraud, theft and surgery. Now the victim of his career's hubris and U-turn ethics, Skalbania once described his technique of raveling three-quarters of everything he bought before completing the transaction as "the best return on equity there is." It's called arbitrage, or close to it. But in the process, he lost many of his fellow investors, lived on the edge of bankruptcy, and stretched the ranks of even his prime past their legal limits.

Yet there is something sweet and appealing about the man. His bewitching eyes, manicured beard and otherworldly manner give him the countenance of the lead in a swashbuckling company of *Jesse Crist, Superstar*. The hakaial gambler in him is housed in another, more rational and charming self, a man of good humor and surprising earnestness who regrets his ignominy in life and the world's general weirdness to tilt against. At the height of his success in the late 1970s, he was flipping commercial real estate worth \$580 million a year, and became a West Coast cult figure of sorts.

At one point, he owned a \$27-million private jet, a pair of Mercedes-Benz 450SLs and four Rolls Royces, including the 1925 phaeton convertible used in the modern picture *The Great Gatsby*. He built a 1,500-square-foot Greek villa overlooking Vancouver's Fraser River and bought John David Eaton's fortunes when Eaton died and left his wife, Alice, and son, A.Y. Jackson.

It was long way from his youth in Wilkie, Sask., and his meager years in Vancouver. The son of a Polish carpenter, he came from a family so poor that young Nelson had to stay home from school on wash days, because he had only one pair of pants. He eventually worked his way through a civil engineering degree at the University of British Columbia and later won a scholarship to the California Institute of Technology where he graduated with a master's degree in geological engineering.

In the next few decades, he set off a few earthquakes of his own, specializing in real estate, but also moving into sports, becoming the owner at various times of the National Hockey League's Atlanta Flames (which he moved to Calgary), the Montreal Alouettes (football), Memphis Rogues (soccer), Vancouver Canadians (baseball)

One of the few deals Nelson Skalbania turned down was raising the Titanic by filling it with Ping-Pong balls

and two World Hockey Association franchises—the Edmonton Oilers and, later, the hapless Indianapolis Racers. Skalbania signed Gretzky to his most lucrative deal, but even that didn't help. He eventually traded the budding Great One to the Oilers, then owned by Peter Pocklington. When he folded the Racers, an Indianapolis newspaper headline read: "Nelson, go back to Skalbania."

His strength was his gambling staff. Like the master poker player he was, he knew how to keep his emotions in check, so he seldom fell in love with his properties because he so seldom saw them. His problem was that he wrote giant checks and kept the quidits of matchbook covers. What brought him down was that his business depended on containing inflation to keep increasing the value of most of the assets he bought, even when they had negative cash flows.

On Dec. 7, 1982, he ran out of money, credit and love. His second wife, Elena, a porpoise Greek with senator-like hair, left him and ran Vancouver's swanky Wedgewood Hotel, because he left up with his antics and left her. He alienated the Vancouver Opera Company \$50,000 for permission to publish his wife's largesse during the intermission of one of their performances, but settled for making her a guest at a private party for more than 250 of his best friends. ("I'll be the most honest, losing, condescending husband possible. I just have to get rid of all the shackles that are draped over my shiny shoulders.") She agreed to a reconciliation, which is still in effect, and in the same evening he declared that he was \$50 million in the hole.

Instead of declaring bankruptcy, his creditors agreed to let him work out his debts—and, amazingly, he still managed to attract backers. The pattern was set with his next investment, Radio Caroline, a pirate broadcasting station he started in 1975. It was meant to raise money by bypassing British commercial radio regulations, which were gradually changed to make the stations legal.

These followed the purchase of a match factory, a methanol cruise ship, a company that operated 50 miniature theme parks across the United States, a Peruvian restaurant, something called Club West (featuring on Club Med, with horses instead of beach), a bar in Berlin and an Australian newspaper firm promising to launch satellites. Even the destitute, one of the few debts he turned down was trying to raise the Titanic by filling it with Ping-Pong balls.

A year ago, he can't afford options. Not only were there \$11 million outstanding against him, but Skalbania had used a partner's \$300,000 deposit in a real estate deal for his own private purposes, such as paying an over-the-top dry-cleaning bill. He did return the money with interest after three months, but the damage was done. Skalbania was first acquitted by a lower court, but he lost an appeal. Nelson Skalbania is one of a kind. He is certainly down, but only the brave would count him out.

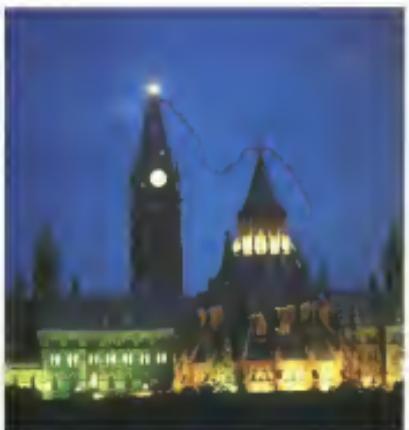


Certified General
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Association

News

THE SMART GUIDE TO THE 1997 BUDGET

The federal Finance Minister delivered his budget on February 18, 1997, in Ottawa. As a service to our clients, members and the public, CGA-Canada has analyzed the measures presented in the budget to help Canadians better understand what it means to them.



FORECAST

We are disappointed that the budget didn't include an income tax cut to boost economic performance and create jobs. Our "Treasury Blend" study demonstrated that a \$4 billion tax cut would produce 100,000 jobs and a \$5 billion increase in real gross domestic product in the next four years. Aside from that, this is a solid budget that will likely be well received in the financial markets.

ERIC HARTSHORNE, CGA-Canada
Vice-Chairman, CGA-Canada

CONTENTS

PAGE 1 Budget highlights—staying the course

PAGE 2 Budget spending updates:
Our children...our future
Helping disabled Canadians

PAGE 3 Helping to educate our students
Student help for small business

PAGE 4 Encouraging charitable donations

OUR CHILDREN—OUR FUTURE

The '97 budget decides on earlier initiatives to create a national child benefit system. It proposes a two-step enhancement of the current \$6.1 billion Child Tax Benefit to create a \$5 billion Canada Child Tax Benefit by July 1998. This \$850 million annual increase includes \$600 million in new funds, in addition to the \$250 million increase in the Working Income Supplement proposed in the 1996 budget.

How will this affect your family?

BUDGET SPENDING INITIATIVES

- \$800 million to set up the Canada Foundation for Innovation
- \$300 million to expand and strengthen the Canadian health care system over the next three years
- \$425 million in new federal money allocated to the Canada Infrastructure Work Program
- \$50 million in 1997/98 to support home renovations for low-income Canadians
- \$45 million in new funds over three years for tourism promotion
- \$50 million to the Business Development Bank to help finance private sector tourism infrastructure
- \$30 million over three years to connect Canadians to the information highway
- \$50 million to the Farm Credit Corporation to expand its capacity to support growth and diversification in rural Canada
- \$20 million sustainable development fund for energy efficiency and renewable energy investments

Canada Child Tax Benefit. All families with a total income under \$20,321 will receive an annual amount of \$1,625 for the first child and \$1,425 for each additional child.

Helping disabled Canadians

The new budget will also help Canadians with disabilities participate more fully in Canadian society.

Starting in 1997, it proposes a refundable tax credit based on eligible medical expenses. This will be the lesser of \$500 and 20% of the taxpayer's allowable medical expenses. The credit will be available to workers with at least \$2,500 in earned income and will be reduced by five per cent of family net income in excess of \$16,000. Individuals claiming this refundable tax credit may also claim the medical expense tax credit.

The budget provides additional tax assistance to the disabled by broadening the list of expenses eligible for the medical expenses tax credit to include:

- 20% of the cost to adapt a car for transporting an individual using a wheelchair — up to a maximum of \$9,000
- A maximum allowance of \$2,000 to cover expenses incurred for moving to accessible housing
- 50% of the cost of an air conditioner prescribed by a medical practitioner as being necessary to assist an individual in coping with a chronic illness or disorder — to a maximum of \$1,000
- The amount eligible for the tax credit for part-time attendant care increases to \$10,000 from the current \$5,000

- The \$5,000 limit on the deduction from income for attendant care expenses that we necessary to allow the disabled individual to work is eliminated.

HELPING TO EDUCATE OUR STUDENTS

At the cost of a higher education continues to soar, the government plans to offer more assistance to students this year, as many as a million more students could be the beneficiaries of new educational assistance increases to \$180 per month (up from \$100) and to \$200 per month for 1998.

Tuition fees eligible for the tuition credit have been expanded to include other mandatory fees imposed by universities and colleges. This includes fees for health services, athletics and various other services. Not included are student association fees, ancillary fees at institutions controlled by the Minister of Human Resources Development and the cost of textbooks and semester items.

There's also good news for people who support students. Students will now be permitted to transfer up to \$6,000 (up from the current \$4,000) of unused tuition fees and education deductions to a supporting parent, grandparent or spouse.

Prior to 1997, if this student or a supporting parent could not use these education credits they were lost. This year's budget proposes to allow students to carry the credits forward indefinitely — until they have sufficient tax liability to make use of them.

increases to registered education plans

If you are contributing to a registered education savings plan (RESP) on behalf of a child, you will see great increases

in the cost of a higher education continues to soar, the government plans to offer more assistance to students this year, as many as a million more students could be the beneficiaries of new educational assistance increases to \$180 per month (up from \$100) and to \$200 per month for 1998.

Income from an RESP has traditionally not been taxable to anyone other than the named beneficiary of the plan, and the funds had to be used for the child's post-secondary education. Not surprisingly many parents and other supporting individuals have been reluctant to invest in a program in which their investment income will be forfeited should their child decide against a post-secondary education.

The budget proposes to alleviate this fear by allowing contributors to receive RESP income directly under certain circumstances. New rules will allow RESP income to be transferred to the contributor's — or the contributor's spouse's — RRSP.

But there are some catches:

- The contributor's tax (spouse's) RRSP must have sufficient contribution room
- The RESP must have been running for at least 10 years, and the beneficiary must have turned 21
- A fee of 20% of the RESP income will fully offset by the RRSP transfer will be imposed in addition to regular taxes

MODEST HELP FOR SMALL BUSINESS

The government has frequently stated that small businesses are a major engine driving our economy. So it is nice to see that the budget proposes some measures to assist these enterprises. These include reductions in employment insurance (EI) premiums and an expansion of the New Jobs Program, which will provide further EI premium relief to almost 900,000 eligible businesses. These eligible will pay no EI premiums for new employees in 1997 and will receive a 25% reduction in EI premiums for new employees in 1998.

To ease the pressure banks on small businesses, the budget proposes to permit employers with good compliance records to免去 employer deductions on a quarterly basis, for average monthly remittances of less than \$1,000.

Financing is an ongoing concern for many small business owners. They will be pleased to see that the funding for the Small Business Loans Act will be increased to \$14 billion from \$12 billion in 1997. The Small Business Loans Act assists new and existing small businesses to obtain term loans from chartered banks and other lenders to finance fixed asset purchases and improvements

of the recipient.

To make RESPs even more attractive and flexible the budget proposes broadening the types of eligible full-time post-secondary education to include qualifying educational programs offered by correspondence or distance education from an eligible institution.

Deferral for student loans

Many new graduates are finding it tough to find a job these days — and the causes cannot be overstated. When it is time to repay their student loans, the budget proposes to modify the Canada Student Loans program to increase the deferral period for students unable to meet their loan repayment obligations to 10 months from the current 18. Combined with the initial six months after graduation when no payments are required, students will have up to three years to start making full payments.



The budget provides relief to a number of groups in society who need help. There is no doubt it will benefit youth, students, disabled Canadians, low-income seniors and children in poverty. It addresses health care and encourages charitable contributions. All in all, there is some real evidence of social conscience in this budget.

JOHANNE LEDUC-GALLANT, CGA,
Principal, Deloitte Gouverneur

FORECAST

Encouraging charitable donations

Charities can no longer look for as much government assistance as in the past and this year's budget makes it more attractive for taxpayers to donate to their favorite causes. Starting this year the deduction limit for charitable donations has increased to 75% of net income. This will apply to donations to all registered charities. The new limit is an increase over the current 50% for most charitable donations — but a reduction from the current 100% for donations to certain other charitable organizations.



A TIMELY BLEND

Prior to the federal budget, CGA-Canada conducted its own numbers to recommend a recipe for a better budget. In A Timely Blend: Balancing Fiscal Restraint with Tax Reduction, the Association called for a \$4 billion cut to income taxes. Our study showed that this modest cut would actually raise the real gross domestic product (the total of all goods and services produced in Canada) by \$5 billion and create more than 100,000 jobs by 2001!

For a copy of this report, check out our web site at www.cga-canada.org

The deduction will be further increased by an amount equal to 25% of the amount of taxable capital gains included in the donor's income or 25% of the lesser of:

- The amount of uncapture of capital cost allowance included in the donor's income
- The lesser of its capital cost and its fair market value

The budget also proposes to reduce the income inclusion resulting from capital gains on gifts made after February 18, 1997, and before 2002 of securities issued on prescribed stock exchanges, to 30% from the current 75%.

Charities that continue to hold certain properties acquired from non-arm's length persons or partnerships may be charged a 30% tax on the value of those properties under certain circumstances.

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CGA-Canada is the national association representing 50,500 Certified General Accountants and CGA students. It is a respected source of financial and management information for its members since the full spectrum of small and medium-sized businesses, major corporations, individuals and governments. This special budget summary is provided as a public service of CGA-Canada and reflects changes announced in the February 18, 1997, federal budget.

FORECAST

Closely related, the deficit is the best priority. The Minister has also introduced a number of measures that will present financial planning opportunities, such as the new charitable donations rules and the RRSP changes. And, even though it looks, the insight is on the right track in reforming the Canada Pension Plan.

DON GOODWIN, CGP, FCPA
Partner, KPMG Heaney Goodwin,
Barrie



Your personal tax plan should not be static. It should be reviewed and revised on an ongoing basis to change due to your personal circumstances and in tax legislation or interpretation. You should always review any specific tax plan with your Certified General Accountant.

LOOKING FOR MORE INFORMATION?

For more information, contact your local CGA Association visit our Internet site on the world-wide web or consult your local CGA.

Certified General Accountants' Association of Canada
700-1199 West Georgia St.
Vancouver, BC
V6E 4J2
Tel: 604-689-3555
www.cga-canada.org

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People

Edited by
BARBARA HICKENS

Tyabji talks back

Her life story makes her a prime candidate for the talk show circuit, but Asha Tyabji has turned the tables. Last week, Tyabji—a former B.C. politician who came to national prominence in 1995 when her extramarital affair with then-Liberal leader Gordon Wilson was revealed—began hosting her own TV talk show on Victoria's CITEK 6 station. Tyabji and Wilson, who were both separated at the time, originally deleted their love letters, only to have one of them leak letters leaked to the media. After they announced their engagement, the two were tossed from the B.C. Liberal party. The whole series of events taught her the importance of free journalism, says Tyabji, 32, who married Wilson, now leader of the fringe Progressive Democratic Alliance Party, in May 1994. She claims that her program, focusing on contrarian and current affairs, will air both sides of every issue. "In some ways," Tyabji says, "I think that television can be more effective in working for the people and fighting for the system than being an opposition MLA ever was."



Tyabji: "The importance of free press is huge."



Down East fiddler on the roof

For Ashley MacIsaac, it was a sweet homecoming. The Cape Breton Island fiddler has helped to popularize Celtic music, with his 1995 album, *Hi, How Are You Today?*, selling 250,000 copies in Canada and currently moving in the alternative charts in the United States. But his pure bent on traditional Cape Breton tunes has irritated some purists in his native province. Nevertheless, last week 18-year-old MacIsaac was the big winner at the East Coast Music Awards in Moncton, N.B. As well as best male artist, he picked up awards for best album, best song for *Sleady Maggig*, best pop rock artist and best dance/hip-hop artist. MacIsaac's response was straightforward. "Yes, I'm the male artist of the year. Thank you."



Making up for lost time

It took Lois Bissellette 18 years to finish her 12-book *Le Désordre* series. But the busy publisher of Montreal's *Le Devoir* newspaper fixed off her 1995 book, *Choses vives*, within three months. *Choses vives*, a short novel, recently translated into English as *Affairs of Art*, tells the story of a Montreal art critic who dies of AIDS and leaves a letter to a former lover about the men and women he loved. Bissellette, 53, also has a collection of short stories that will be published in March and is at work on a third novel. "It's as if I got into the rhythm," she says of her prolific spirit. Although Bissellette rules out the idea just yet, she would someday like to write a novel a year. "Since I started very late," she explains, "I have a sense of urgency."

Bathroom confidential

For men who have always wondered why women go to the bathroom in groups, and what they talk about when they get there, The Powder Room may confirm their worst fears. Toronto filmmaker Ann Bon-

new spent a year and a half filming women in washrooms—everything from real issues in local bars to a Maracanah, but he chose to a Danish sauna. She gathered about 100 hours of footage, which she edited into a funny, pacy and revealing documentary for the National Film Board. "It's got to be the group that's in there,"

With stunning candor, women talk about infidelity, like orgasms and the fundamental biology of the male gender. "The public washroom is a gold mine of human communication," says Reynolds, 38, whose film has become a highlight on thepository circuit. "It's got to be the group that's in there."



Postponing death

In separate breakthroughs, researchers at two Canadian institutions report major discoveries about the cellular processes that underlie—and might soon be used to slow—the aging process. In a paper published in the prestigious journal *Science*, McGill biological engineer Bernd Eelsing and colleagues at the University of Bonn, Germany, have developed a fetal anesthesia procedure that could make it easier to operate on unborn children. Two doctors at Bonn University—Bernd Eelsing and Manfred Hensmann—have been able to provide local anesthesia to the unborn fetus, engorged because of a potentially fatal blood incompatibility, the university announced. The procedure requires the fetus to make no sudden movements and until now, that has meant anaesthetizing the mother or giving the fetus a substance that paralyzes its muscles but did not dull the pain. Eelsing and Hensmann delivered anesthetic through the umbilical cord, monitoring the child to be sure that its heart beat normally through the 30-minute operation.

Fetal anesthesia

In a breakthrough procedure that could make it easier to operate on unborn children, two doctors at Bonn University in Germany invented a fetus for a life-saving operation in the womb while leaving the mother conscious. By inserting a needle through the 23-year-old mother's abdomen and into the umbilical cord, Bernd Eelsing and Manfred Hensmann were able to provide local to the unborn child, engorged because of a potentially fatal blood incompatibility, the university announced. The procedure requires the fetus to make no sudden movements and until now, that has meant anaesthetizing the mother or giving the fetus a substance that paralyzes its muscles but did not dull the pain. Eelsing and Hensmann delivered anesthetic through the umbilical cord, monitoring the child to be sure that its heart beat normally through the 30-minute operation.

Hormone alert

Postmenopausal women who undergo estrogen replacement therapy run the risk of developing cancer of the uterus—but they can reduce that risk by taking the hormone drug estrogen at the same time, according to a study by scientists at the University of Washington. A survey involving nearly 2,000 women showed that those who took estrogen by itself have a four times greater than average risk of developing cancer in the endometrial cells that line the uterus. But the Seattle-based researchers, whose results were published in the British medical journal *Lancet*, found that women who took both estrogen and progestin had little or no increased risk of endometrial cancer. Estrogen replacement therapy reduces the likelihood of osteoporosis and cardiovascular disease in older women. But it is suspected of other health risks, including a possible link with breast cancer.

Caffeine and fertility

Over the years, scores of largely inconclusive studies have found links between caffeine and numerous diseases. Now, a European study shows that heavy consumers of caffeine-laced drinks, including tea and many soft oils, can affect fertility in women. The study, involving more than 3,000 women in five countries and published in the *American Journal of Epidemiology*, found that women who consumed more than 500 mg of caffeine a day—the equivalent of five cups of coffee, 10 cups of tea or 15 soft drinks—were 11 per cent more likely to become pregnant than those who consumed no caffeine. In another study, published in the *American Journal of Clinical Nutrition*, Norwegian scientists found that heavy coffee drinkers had unusually high levels of homocysteine, an amino acid that can increase the risk of heart disease.

A survival gene backfires

A mysterious survival mechanism common to almost all viruses appears to be producing damaging results in a 200-million-strong population. In Northern Ontario, doctors are working with Ojibway-Cree Indians in an effort to address the lifestyle factors that have given the Cree the highest known incidence in Canada of Type II diabetes. The disease can lead to loss of eyesight, amputation of limbs, kidney and liver problems. Researchers found that 40 per cent of the 720 people studied among the 1,600 residents of the Sandy Lake reserve, 480 km northeast of Winnipeg, are affected by the non-insulin-dependent diabetes, with children as young as 10 showing symptoms. Dr. Bernard Zimmet, a diabetes expert from Melbourne's Monash Medical Hospital, said that the Cree—in common with other aboriginal societies—have a superior ability to store nutrients in their bodies to survive periods of famine. But now that factors, combined with a lack of exercise and a reliance on fast-food products, is making those people more susceptible to obesity—not of risk of diabetes. Zimmet's team and other specialists are trying to get the Cree more physically active—and eating less fatty food. In just one example Zimmet cited, "We're trying to persuade them to make pizza with low-fat cheese."



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Teamwork for tough times

BY VICTOR DWYER

It may be an exercise in futility, but Sally Sinclair is only too happy to be a part of it. Coaching with parents and youngsters in the so-called parenting room at the inner-city Dundas Public School in Toronto, Sinclair is doing her best to entice her 38-month-old son, Martin, to play with a small top. Martin is not interested. Defiantly, he throws a picture book towards his mother, and holds it there until she takes a seat beside him and begins to flip through. Minutes later, sitting under a bulletin board that sports information on everything from reading and writing to nutrition and housing, Sinclair describes how the parenting centre has helped put her family on the road to parenting success. "I have learned a lot about parenting, and the children love about learning," says Sinclair, who also has two sons by leadership. For example, Karpick Reckitt, whose school also offers breakfast and lunch programs, the centre, where parents get advice and guidance on a range of literacy and parenting issues, is one part of an coalition bid to test the effects of digital times. "We fit in the blanks," says Reckitt, "and so more families struggle to make ends meet, there is no question there are more blanks to fill than ever before."

As Finance Minister Paul Martin trumpeted new measures to help Canada's poor and families in last week's federal budget, educators like Reckitt continue to wage their own quiet battle to help disadvantaged students. For ensure that has meant transforming their schools into one-stop shopping centres, where families stretched for time and resources can get help from community and government agencies. Like Reckitt, schools have launched an all-out drive to save children—and their parents—from the schoolhouse. Bring before it is time to read. Others are creating programs designed to convince high-risk kids that hard work pays off. "Children spend a lot of their waking hours at school," says Jon Robson, principal of Bancroft Con Inst School. In Bancroft, Sault, a financing



Sinclair with son Martin: advice and guidance on a range of issues

Schools battle to help high-risk kids

ing up at school ill-prepared to learn. Middle-income parents took home percent less money in 1990 than a decade earlier, according to a study released last year by the Canadian Council on Social Development. And their struggling paychecks were mirrored by what the council calls "a poverty of family time": on average, they spent eight per cent more time at work than 30 years earlier. "The loss in time families are going and not coming to school is tragic," says Bruce Mackay, president of the Alberta Teachers' Association. But as parents face underemployment, or longer hours at the jobs they have kept, the stress on families is building.

Failing to address the fallout head-on can have long-term academic consequences,

says Alan Pearce, a professor at the School of Child and Youth Care at the University of Victoria. Pearce tracked the educationally successful children from 60 families in the city over a 10-year period beginning in 1985. His conclusion: children from low-income homes, who were in poor-quality child care and whose parents had minimal education, tended to fall behind in language measures, as early as age 3. What's more, those same children continued to trail their peers at age 13. Another study, released last year by the Council on Social Development, concluded that twice as many poor as non-poor teens drop out before completing high school.

Facing a tough battle, teachers increasingly are the focal point in a lean client. In the toughest neighbourhoods, where poverty goes hand in hand with youth crime and gang violence, teachers and social workers often play a major role. Last fall, with an annual budget of \$107.3-million shared by the local, provincial and federal governments, four inner-city Whiting schools launched a three-year pilot program called Classes for Youth. The program is aimed at 87 children in grades 4 to 12 who have been identified as "at

risk," but who, in the words of coordinator Wendy Braggan, "have not yet become entrenched in the gang lifestyle." Along with Const. Darryl Kvachan, Braggan holds classes on conflict resolution, anger management, and the destructive aspects of life on the street. And volunteers, many of them university students, work one-on-one to improve the children's academic skills. "A lot of my friends were getting into gangs—doing break and enter, assault, beating up old people for beer money," says Barbara Weiler, a Grade 8 student at Hugh John MacDonald School. "Now I have someone to talk about the violence, and I'm hooking up with other kids who don't want to be a part of it."

Otherschools are working hard to connect with groups and agencies responsible for the welfare of children, encouraging them to make the schools their central dependency. Last year, Saskatchewan launched Integrated School-Linked Services, a unique program jointly funded by the ministries of education, justice, social services and health. It helps principals like Robson develop teams of social workers, police officers, child protection workers and others who meet with families to solve immediate and chronic problems that get in the way of learning.

As governments cut back education budgets, such partnerships can be a matter of survival. Ryerson Community School in Scarborough has developed ties with 20 agencies and businesses, from a local women's shelter to the Metro Toronto Housing Authority, to find funding help to families who need it. "In the past, especially the '80s, teachers used to be all things to all students," says principal Chris Bolton. "There are just not the resources for that now." Meanwhile, the school has developed its own programs, including "night gyms," in which kids can spend supervised evenings off the streets. "It means nobody can eat you chicken if you don't hang out looking for trouble," says Grade 7 student Alia Odeah. "Now you can just tell them you've got better things to do."

Key to any program is getting entire families onside. In Winnipeg's Choices for Youth, that means holding separate evening classes where parents can talk with their teen coaches. There's a broad-based focus of home life and stress reduction. The Toronto board's 34 parenting centres work with 7,000 families in inner-city neighbourhoods. Their two goals are to equip par-

entsholders with literacy and other skills, and to encourage positive attitudes to education in parents who have often had a personal history of failure at school. "We're not into this warn, huffy self-esteem business," says program co-ordinator Mary Gorley. "We're into hard-core self-esteem, where parents can say, 'My child knows this because I worked hard to get him learning.'"

At least some politicians appear to be recognizing the wisdom of helping all kids get an early start to learning. Although cuts of \$400 million to Ontario's education budget have left some boards to eliminate junior kindergarten, other governments are placing a high priority on such issues. After off-loading half the cost of kindergarten to boards and families in 1994, Alberta is restored close to full funding last September. "It's a big relief," says Mackay, "because the very kids who needed it the most came from the homes that were least able to afford it."

In Quebec, meanwhile, Education Minister Philippe Marois has announced plans to increase up to \$300 million in full-day kindergarten for five-year-olds and provide kindergarten for students from low-income families.

While educators are encouraged by such moves, they are clearly skeptical about depending on politicians to make a significant difference—Marion's recent announcement notwithstanding. Ryerson's Bolton notes that the Ontario government has been forced to reduce per-student funding for breakfast and after-school programs, replacing it with user-may differenced on an ad hoc basis.

And although Mackay is relieved by Alberta's decision to kindergartens funding, he notes that the majority of other new spending has been earmarked for a \$5-billion drive to computerize classrooms. "We won't say no to that either," says Mackay. "But when a child is hungry, or coming to from a family in severe financial crisis, booking him up to the Internet isn't going to mean a heck of a lot to him." Still, at a time when one in five children continues to live in poverty, many teachers say they have little choice but to carry on with the job at hand. "It's not a per-level world—for themselves or schools," says Sinclair's son, Martin. "But our job is to take kids how we get them, and work with whatever will help us to give every student a fair shot at success."

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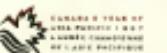
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EDUCATION Sounding out success

For the back-to-basics movement, it was a red-letter day last week. University of Houston educational psychologist Barbara Foytress released a study providing strong evidence that phonics is superior to a so-called whole language approach when teaching children how to read. For the educational establishment, the findings were a clear win-win. Over the past five decades, the whole-language movement has strengthened its grip on Canadian and U.S. classrooms, as proponents praised it as a way to motivate children to read by first introducing them to entire stories, rather than to words, syllables, and the rules of grammar and spelling. By contrast, phonics begins by teaching children the relationship of letters to sounds, and then shows students how to link those sounds to written words and sentences.

In her study, Foytress divided 315 low-achieving Grade 5 students from poor homes into three groups. The first was taught reading using a whole language approach; the second using phonics, and the third using a combination of the two. After one year, fully one-third of the whole-language group had failed to master more than 2.5 words on a 50-word list—a skill level considered to be an indicator of learning disabilities. Only six per cent of those taught with phonics had such low scores. The performance of those taught with both methods fell in the middle.

However dramatic, Foytress's findings are certain not to be the last word on the subject. Just two years ago, David Doak, now retired from the faculty of education at Acadia University in Wolfville, N.S., published the results of a study he had conducted during the 1980s in which he tracked the success of a group of 16-year-olds, all of whom had been taught using phonics, "and all of whom," says Doak, "were totally inadequate readers." After four years of whole-language instruction, says Doak, "their program had not worked." Adds Doak: "A good whole-language teacher will quickly draw students into a phonestic—into linking patterns of the sound-and-the-words."

Still, parents frustrated with public school reading woes have looked to Foytress. "We say yes, phonics is what should ever be used to teach reading, but it makes sense that to know how to begin," said Markie Dure, spokeswoman for the parent-led Generation for Quality Education. "Why make children hungry to read until you've given them the tools they need to satisfy that hunger?"

W.D.

Films

The garden of evil

In two movies, hell is a place called Arkansas

BY BRIAN D. JOHNSON

On the biceezy plates, Arkansas-advertsing has had a "Land of opportunity." Judging from two new movies filmed in the state that U.S. President Bill Clinton calls home, it is a land that affords an excellent opportunity for evil in particular. *Sling Blade* is a harrowing drama about a released mental patient who comes home to the Bible Belt town where he committed a gruesome crime as a 12-year-old. *Parade's Lost: The Child Murders of Robin Wood Atiles* is a harrowing documentary about the trial of three teenagers suspected of Saracen and convicted in the savage murder of three eight-year-old boys. The films are utterly different. But both present Southern gothic portraits of a society stricken by hatred and atolerance, a place where violence can come out of nowhere. This is a state of biblical dimensions.

Sling Blade itself seemed to come out of nowhere. It is the movie that has everyone asking "Who is Billy Bob Thornton?" As the writer, director and star of *Sling Blade*, Thornton has received Academy Award nominations for best actor and best adapted screenplay. And it is a year when the *Billy Bob* roundness is crowded with names of unknown actors from Australia and Britain, Thornton—a 45-year-old native of Arkansas—in the American unknown. As an actor, he has quietly played his craft in Hollywood since the early 1980s, appearing in such films as *One Flew Over the Cuckoo's Nest* (which he co-wrote), *Tombstone*, *Independent* and *Dead Man*. Thornton also co-starred with John Ritter on the CBS series *Rhoda*. After *Sling Blade*, he makes his feature directing debut—and creates one of the most memorable characters to grace the American screen in years.

Made for just \$1.5 million, it is a descriptively modest film that thrives on the gentle charm of a slow-witted and amoral Karl (Thornton), a mental patient who is as fierce against his will, 25 years after slaughering

his mother and her lover with a scythe-like tool called a shop blade. Karl has spent most of his life in an asylum for the criminally insane. He has read the Bible, and learned a few news items about right and wrong. By now, he reckons, he must be cured. But even if he is, the world that he is about to re-enter is not.



THORNTON (R), BLAKE It has everyone asking Who is Billy Bob?

Karl, who has a talent for fixing small motors, finds work as a repairman in his home town. He befriends a fatherless young boy named Frank (Lucas Black), who brings him home like a stray dog and persuades his mother, Linda (Nicole Kidman), to let him move in. Her Linda's boyfriend, an abusive drunkard named Doyle (stagger Twighty's) is grossly instrumental of Linda's household. "I don't like shop-worn salts or mental retardates, and she's not one of cashing with legs," he says. "But I don't like badasses"—Doyle's best friend and pro-

tection is a gay hardware salesman, John Reiley. Doyle is short, a bomb waiting to go off. But as a more mysterious level, so is Karl. Both are victims of abusive fathers and turn by force beyond their control.

As a kind of evil saint, Karl belongs to a line of semi-metahumans in movies ranging from *From Here to Eternity* to *Sling Blade*. *Sling Blade* has none of the condescension or grandiosity of those films. Stretched over 141 minutes, and threaded with humor, it is remarkably spare and simple, a slow movie about a silent man—Forest Gump, unplugged. From the opening scene, in which a sex offender at the mental hospital (J.T. Walsh) laboriously scrubs his chair across the floor to sit with Karl, the film builds tension out of difference. And Karl is supremely patient, an outcast who silently endures in silence and impatience—up to a point.

Karl speaks at a slow, gravelly pace, punctuating each complete thought with a grunted "Uh-huh." Thornton may be the character, and the voice, cause to have a flinch one day years ago while he was sitting in front of a make-up mirror. "The whale story just pained right out of me," he recalls, "the whole opening monologue." That monologue, in which Karl recounts his service to a young female reporter, became the basis for a television stage show in 1985, and later a short film.

Thornton lived with the character for years before finally making *Sling Blade*. And on screen, he undergoes an agonizing transformation, with stooped posture and a set jaw. "The physicality of the character," he says, "comes from all the old men I grew up with." Growing up dirt-poor in the backwoods of Arkansas, he was surrounded by squalor. He remembers "a guy who was mired in a shed and lied like a dog, kind of learned-looking in a way. People said it was because his mother had been scared by a snake when she was pregnant. But it turned out he had polo."

Thornton acknowledges some similarities to *Rain Man* and *Forrest Gump*. "But Karl is a lot closer to Boz Bradley in *To Kill a Mockingbird*, or *Frankenstein*," he says, pointing out that Robert Duvall's Boz turns up in a startling cameo as Karl's derelict father, made his first debut as Bradley in *Mockingbird* (1962). While *Sling Blade's* slender narrative evens the scale of the obsession, the characters are complex, and shaded with irony. "I was so influenced by my surroundings," says Thornton, "and by the Southern culture, and humor and taught up in one belly—it's just the way I've always seen the

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FILMS

world. I actually happen to love the South. It's a magical place. But every time you have a magical place," he laughs, "there's more than one kind of magic."

Pandora Lost is a true story of crime and punishment in the Bible Belt in 1983. The mutilated bodies of three eight-year-old boys were pulled from a shallow creek in West Memphis, Ark. On the night they had gone missing, the manager of a restaurant near the crime scene reported seeing blackmail covered in mud and blood on the premises. But the man was never found, and police lost blood samples from the restaurant. A month later they accused three local teenagers—Jesse Muskalley Jr., Jason Baldwin and Damon Echols—of brutally murdering the boys as part of a satanic sacrifice. By the time the teens were tried, the local media had whipped the community into witch-hunt hysteria with embellished tales of blood-drinking and homosexual urges.

Damien is the most vilified of the defendants—suspected because of his name (which he shares with the demon in the movie *The Omen*), and because he dresses all in black, listens to heavy metal and cultivates an interest in the “white magic” of the Wicca religion. Jason, meanwhile, is alienated by his friendship with Damien. And Jesse, who has an IQ of just 72, claims he was coerced into confessing during a morning police interrogation. Although the trial produced no hard evidence against the defendants, all three were convicted of murder. Damien is currently on death row and the other two are in jail for life.

Trucking the case from the very beginning, New York City filmmakers Joe Berlinger and Bruce Sinofsky obtained instant viewing access. They got their cameras into the courtroom, the jail cells and the judge's chambers. They interviewed parents of the victims and the accused, with both sides giving versions. They shot longer strategy sessions, and even eavesdropped on an inmate phone chat between the jailed Jason and his girlfriend.

The re-enactment of all is dismaying at first but the film is also a study of voyeurism, showing how the media feed a spirit of blind vengeance. *Pandora Lost* becomes a drama about white-truth hell—a scenario that

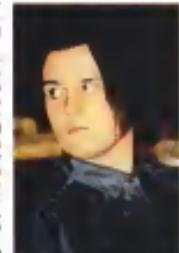
is as scary as the crimes themselves. Judge Mark Byrnes, a pious-looking Baptist pastor in unbuttoned blouse, is the catalyst of one of the victims. One moment he is volunteering a hymn from the pulpit, the next he is blasting bullets into a pumpkin to represent the accused teens.

The film makers get so close to the characters that they even affected the trial. At one point, Byrnes gave them a hunting knife-as-a-gift, and when they noticed it had blood on the blade, they handed it over to the authorities, who put Byrnes on the stand as a potential suspect in the murder of his stepson (the evidence implicating him proved inconclusive).

Apart from that bizarre twist, the filmmakers let events unfold as they occurred. Unlike the groundbreaking documentary *The Thin Blue Line* (1988), *Pandora Lost* does not reconstruct the crime or argue judgment. “We want to treat the audience as jury members,” Berlinger explained in an interview last week. “Our point of view is submerged in the film—that yes, these kids are a little strange, but that doesn’t mean they committed the crime. There was no evidence—it was just like the Salem witch trials. Personally, I think there’s a sexual killer who’s still out there.”

That viewpoint, however, is so submerged that, according to Berlinger, at least 20 per cent of people who see the film (including this viewer) walk out assuming the teens are guilty. And that is largely because of how the camera captures Damien—as a whilst seduced by his sudden notoriety and impulsive to hide. “He’s an extremely self-involved, narcissistic teenager,” says Berlinger. “He’s his own worst enemy.” The film’s subtlety, he adds, “has caused me a lot of sleepless nights. I think we did the right thing, ethically. However, because we believe they were innocent, and they’re not just characters in a movie. I wonder if we didn’t do the best job on the advocacy level. Since we were the stewards of this story, did we sacrifice some of Damien’s choices in trying to make a good film?”

It is a question that makes *Pandora Lost* even more unsettling. As a disassociate paranoid in America where the Devil is still a credible force, and everyone seems corrupt, the film does not just expose horror. It delivers us into a garden of evil, and forces them to choose their own demons. □



Jason seduced by his notoriety



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'Masters of suspicion'

Canadians are not the boy scouts they used to be

SEX IN THE SNOW

By Michael Adams
(Viking, 220 pages, \$27.95)

Few things are more reassuring than the assumptions people make about themselves—as individuals or as a society. Canadians, for example, have traditionally viewed themselves as low-keying, public, conservative people—almost prudish—to the rest of the world. But that is no longer an accurate self-portrait according to veteran pollster Michael Adams. His new book, *Sex in the Snow*, presents a portrait of the modern Canadian character that will surprise and ultimately encourage and unsettle those who cling to the conventional view.

The title of the book may raise eyebrows, in fact. *Sex in the Snow* is a serious and intriguing analysis of a nation and society in transition. The "snow" is an allusion to Canada's framework of established values. The "sex" is a reference to the new emphasis on decision and self-determination.

The book's reflection of the recent changes in the collective soul of Canadians must always interest. We may still be kinder, gentler and less violent than our American counterparts, but, Adams argues, we are not the boy scouts we have usually thought ourselves to be. Instead, he says, today's Canadians are built on instant gratification, participate vigorously in the underground economy, and have a diminished attachment to their authoritarian "home and native land."

The result, the author maintains, is a new sense of individualism that asserts itself in a variety of subtle ways. The most obvious manifestation is the overt rejection of traditional authority. Now, Canadians have become "masters of suspicion." Rather than accepting the status quo, they question, challenge and discard it to an unprecedented degree. A function of this new "skeptic posture," he writes, is a greater propensity for bashing the backs, launching tax revts and taking politicians to task.

Adams argues that the new edge is the Canadian character stems, in part, from the abrupt withdrawal of an interventional cen-



Adams: Canada has entered the age of 'post-institution.'

tred government. He suggests that the convergence of public-sector spending cuts and private-sector corporate layoffs has rocked Canadian confidence in the paternalistic order of the Establishment. At the same time, Canada's history of cultural teleology, combined with technology, has contributed to the creation of an increasingly flexible social order, compatible with a refined set of moral principles.

In fact, according to Adams, this new set of values is the more influential in shaping Canadians' reactions and priorities than either ideology or demographics. Instead, acting within the lines drawn by social class, economic status, religion, race or age, Canadians are now forming connections based on mutual interest, affluency and need. Canada, declares Adams, has entered the age of "post-institution."

At heart and by education, the 50-year-old

author is a sociologist. That background has imbued him with a strong instinct to classify and to superimpose order on a chaotic universe in a way that may strike some readers as a trifle too convenient. Adams neatly divides Canadians along tribal lines, based roughly on their age groups. The progressive fragmentation of Canadian society, as, according to Adams's theory, is revealed by the increased number of divisions among younger generations. The "elders" category, for example, includes only three distinct tribes, while Generation X has five tribes. The "moral traditionalists" dominate the elders, the "disengaged libertines" for nonconformists are the strongest tribe among baby boomers, and the "stirious degenerates" are, by a narrow margin, the largest group of Generation X.

This tribal analysis is at the heart of his thesis about the pressures and shifts that have shaped and will continue to shape our culture. But the slightly clunky prose he brings is the detailed dissection of the groups that punctuates the chatty, effervescent style of the rest of the book.

Adams's thorough comparison of Americans and Canadians is probably the best chapter of *Sex in the Snow*. He observes that Canadians are more flexible in the definition of family, more tolerant of youth and diversity, and more morally sophisticated. Where Americans tend to see complex human issues in terms of good and bad, black and white, Canadians see infinite shades of grey. And his perception meshes elegantly with his overarching conclusion about the future of Canada and the prospects of its citizens. That willingness to see all sides, which some might see as indecisiveness, is, instead, Adams argues, evidence that Canadians are more open and adaptable in a rapidly changing world.

At a time when cultural trade with the United States has become increasingly complex and contentious, that is one of the reasons why Adams holds out strong optimism for the future. He concludes that there has been "much less ideological assimilation of Canada by the United States than is often feared." Furthermore, Adams makes the case that Canadian geographic isolation as well as the flexible structure of Canadian society, position that country especially well in the era of rapid technological change, virtual borders and global cyber-culture. Canadians, he concludes, "have a richness of spirit about to" But then, what could be more Canadian than that, eh?

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BOOKS

Rich little poor boy

An Irish memoir evokes poetry amid poverty

BY DIANE TURRIE

Twenty years ago in New York City, Frank McCourt and his brother Malachy launched *A Couple of Bla-grooms*, a revue in which they sold stories and song songs from their peasantish childhood in Limerick, Ireland. Their mother, Angela, was in the audience, and in the middle of a sketch about the family riding from real collectors, she stood up and denounced it loudly as "a pack of lies." The brothers then invited her on stage to give her version of events, but she declared telling them—and the audience—"I'll not be caught dead up there with the likes of ye, Fye, a reputation to maintain." Recalling that collateral episode in an interview, Frank explained that his mother was ashamed of the abysmal poverty they had endured, as he himself had since been. "When my brother and I first emigrated to New York, we were passage survivors off as the sons of a prostitute," he says, laughing. "As if that was the height of professionalism."

In fact, McCourt is a 54-year-old former schoolteacher a long post being ashamed of his background. His childhood memoir, *Angelea's Attic* (Dutton, \$13), topped the nonfiction best-seller list of The New York Times in mid-February and ranks on several *Christian Science Monitor* lists. And with 500,000 hardcover copies in print in North America alone, it is also selling briskly in Germany, Britain and, of course, Ireland. The book has included a \$17.95 paperback rights deal and a movie option. It has been nominated for both the National Book Critics Circle Award and The Los Angeles Times Book Award, and is rumored to be a fast contender for this year's Pulitzer to be announced on Feb. 7. "I can't believe it, really," McCourt replies. "I mean, all this far away from us."

Slight, drawsy, soft-spoken and limning with self-deprecating humor, McCourt is being



McCourt: Anger, humiliation, an alcoholic father—and, always, laughter

somewhat disingenuous. Part of the book's appeal is the author's ability to see from the bittersweet to the hilarious, all told through the fresh, urgent voice of the young Frank. His alternately fancy and lousy-tasting account of his life at home, at school, on the streets and lanes of Limerick, gives an edifying edge to the familiar outlines of Irish-Catholic deprivation—the poverty, the shabby, lego-esque father, the pious, doleful another awaiting by the fire, portuguese priests, ballyhooing schoolteachers, The English and the terrible things they did to us for 800 long years. But in the next sentence, McCourt gently slows the sketch with a more low-key words: "Above all, we were well," and goes on to describe the particular foibles of Limerick weather.

McCourt suffered all that, and more. His

father, Malachy, was a hopeless alcoholic who routinely drank away whatever money he could lay his hands on, whether it was the stake or wages from short-lived jobs Frank and his siblings existed mostly on bread and tea, with the babies often fed only sugar-free water. Mother Angela begged at various charities for food, clothing and shoes, and once that once-boiled a pig's head for their Christmas dinner.

Yet amid the tears, the meals and the deaths, McCourt's two-joke-old twin brothers died of pneumonia within six months of each other, while an infant sister died of unknown causes; there was love and laughter, unapologetic kindness and even the odd trout. "When you're down as low as you can get emotionally, it gives you a kind of energy you wouldn't have otherwise," McCourt reflects. "And there was a family, such as it was, and there was a community. We all had fun at communion, the Catholic church, school, songs and poetry—poetry was everywhere. That's the paradox: it was a rich life despite the poverty. It was economic degradation and a cultural richness that kept us going. That, and the dream of getting out."

McCourt believes that most North American children today suffer from the very opposite of what he experienced. "They're overloaded with material wealth and inundated with too much information," he says. "I feel sorry for kids who have so much and yet so little. So finally life, no meager, no earthly life, no meager, nothing by the fireside in the morning talking and looking into the fires."

It seems astonishing that McCourt can be so forgiving of his father, who never abandoned his four sons and wife when Frank, the eldest, was 11. Distrustfully, Malachy was going to work in England's working factories, like many of McCourt's neighbors, and would be sending money back to his family. But all too predictably, he drank away all it away and returned only a few times, bringing up one Christmas without his top *dearie* and with a half-empty bottle of chardonnay. From an early age, McCourt recognized his ambivalence about a father who would entertain him with stories of Irish warriors and help him with homework one day, and show incredible callousness the next. "I think my father is like the Army,"

BOOKS

with three people in him," he writes, "the one in the morning with the sugar, the one at night with the stories and the prayers, and then the one who does the last thing and comes home with the smell of whisky and wants us to be dead."

Frank, who had been singled out as a gifted student, nevertheless dropped out of school at 14 and took on a series of menial jobs, including delivering telegrams and writing threatening letters—and unwillingly courted—let's call them the delinquent customers of a draw-

maker. By 18, he had made enough to sail to America, the country where he had been born but had left at the age of four when his feckless parents returned to Ireland in search of better times. In New York, he worked at various odd jobs before enlisting in the U.S. army, and then attending university on the G.I. bill.

If the tribulations of his childhood made him a survivor, they also left him damaged.

As a young man, McCourt says, he was "a more exuberant, vulnerable, lovable, uptight,

and more or less unloved person."

Teaching, as well, was his salvation. After McCourt had obtained an English degree from New York University, he began a 30-year career as a high-school writing teacher, which ended with his retirement in 1987. McCourt says that he felt a strong rapport with his students, and learned a lot from them. "If I hadn't been a teacher, I would probably have drunk myself to death," he notes. "Teaching made a man out of me." Occasionally, he would tell students his own stories. "They were tough stories, there was no lie or sympathy with them. They'd say, 'Crisp teach, we've got our own problems!'"

McCourt says he spent many years "tidying"—writing bits of dialogue and small scenes of the book that eventually became *Angela's Ashes*. Tucked away in a drawer in an early version, which he describes as derivative, provocative, and awful. "Whenever I started to free-sing, I'd take it out of the drawer and say, 'This is not the story.' [The story] But it wasn't until 1994 that he started to write, properly, and finished the manuscript in one year.

Last October, he returned to Limerick, where the singer greeted him in his official robes. The book was launched at O'Mahony's Bookshop, where some 600 people turned up for the signing. As a serenely boy, McCourt had been thrown out of the bookshop while trying to discover how *Julius Caesar* turned out. (He'd been introduced to Shakespeare when he was hospitalized for typhoid for two months at age 10, leafing through a book he had come across two hours of *The Bard*. McCourt remembers his reaction to *Caesar's* death: "I don't know what it means and I don't care because it's Shakespeare, and it's like having jewels in my mouth when I say the words.") By way of a coda, the management of O'Mahony's presented him with a complete set of Shakespeare.

McCourt will spend part of this year as a writer-in-residence at the University of Limerick, and will start the sequel to *Angela's Ashes*. He will never have sold his book for nearly 20 years as an American immigrant; thus three surviving siblings and his mother, who died in 1981, eventually joined him in the United States. McCourt guesses them say he's thinking of calling it *A Park of Loss*. But McCourt and his readers know that, as Angela would have said, "That's it."

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Allan Fotheringham

Why budgets are no longer made in secret

Tradition is a wonderful thing, supposedly the glue that keeps our society on track. We must respect our history, goes the line, or we will never learn from it.

This is true, in part. Fred Astaire, before he died, said he still sorry for modern young people. "How can you learn manners when you've never seen them?" It is not true, in part. Witness the present Maytag—what tradition taught them!

Tradition is also a crock when it comes to Parliament and the most overlooked factor of Paul Martin's budget is the way it approached it. He knows, as any sane person does, that the arcane, sacred tradition of "budget secrecy" is as dead as the battlefield. But the myth goes on.

Budget Day, some 400 scribblers and TV teeth-slash-type



at best caught between Dickens and today that it then raised the salient scribbles and pretty faces by his back to Parliament so as to get the publicity and face-on attention it wanted.

Orkina, as we know it, is as removed from reality as Star Wars. So there we have this surreal scene. Heck that the government figures had words, being locked in an artificial prison to try to get its back on camera for the evening news to trumpet the non sense that it knew in nonsense. American journalists stationed in Canada by the major U.S. papers look upon this goofy scene as something out of the War of 1812 when soldiers wore brilliant red jackets so their opponents could quickly pick out something to shoot at. They are correct in their assessment.

It takes a long time to eradicate nonsense and Martin the Younger knows that. If he's been forced to do the budget process in reality and explain what it is for other people to understand, the United States of America, do it in a similar situation.

In Washington, a pre-budget White House staff has done a public relations exercise where who wants to go and what he wants to spend. Every senator went down to the Hill and spoke up his concept—labor unions, teachers, industry, the pensioners, lobbyists, the tree-huggers. A feedback-controlled Congress handles this. Everyone contributes and

criticizes, and by the time the budget is finally delivered, every single American who can read or cares knows exactly what the numbers are. To maintain this Dickensian concept in Ottawa—soilies locked in a chilly banjo with malleable lead—is as boney as the Charge of the Light Brigade. Martin knows that. It's why he spent his pre-budget months conferring with stock market types, academics, child poverty experts—anyone he could find who might be affected by what he, sagely, wanted to do. There isn't nobody here but us taxpayers.

The noose? You will recall the tremendous uproar several years back when some bored clerk leaked budget secrets to Ottawa TV reporter Doug Small and a small army of the feds was dispatched to find the miscreant and possibly get the dreadfully dangerous Small at the crowbar hotel.

Students of history will recall that the number of Walt Disney's Moon Ties sent out to close 300 stores to publicise was about three times the 100 RCMP assigned to chase the rumor that a former prime minister of Canada was snared in the Arbe-Sace. On July 14th, Cleese, if not Peter Sellers, could compare this up properly.

The Martians on the right track (the snooty) were undeterred by Budget Day when the CBC, for once taking its bulk marching, opened its TV presentation of the Martin budget by telling its viewers the key points of what the finance minister was about to announce.

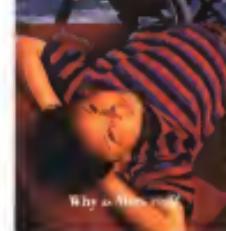
It marked a clear divide between the measure of yesterday and what will come in the future. The 400 scribblers in the budget were there because of available space in downtown Ottawa had been previously booked.

The government was so embarrassed at being caught between Dickens and today that it then raised the salient scribbles and pretty faces by his back to Parliament so as to get the publicity and face-on attention it wanted.

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We have a suggestion for the Ottawa press gallery. Next budget, do a funny thing. Get all the press seats over the finance minister's head and listen to his speech and then literally file it off to the city's newspapers and television stations.

The government would groan. This nonsense of tradition, of "budget secrecy" would be revealed the wht it is. What Martin the Younger becomes general audience all the subterfuge will, hopefully, be obliterated. But that's another story.



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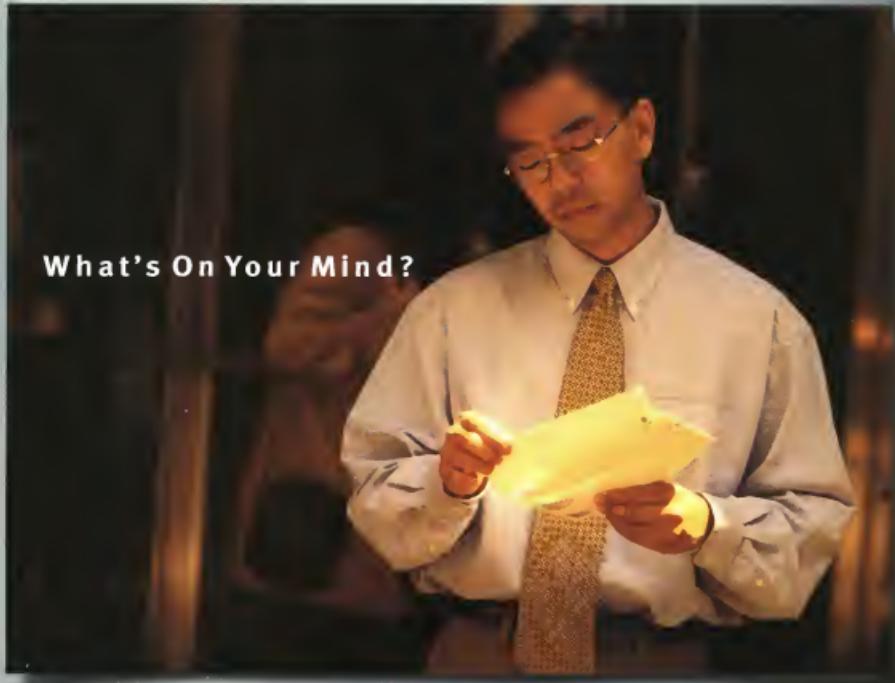
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